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BEFORE THE ARIZONA CORPORATION COMMISSION

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MARC SPITZER

Chairman

WILLIAM A. MUNDELL

Commissioner

JEFF HATCH-MILLER

Commissioner

MIKE GLEASON

Commissioner

KRISTEN K. MAYES

Commissioner

Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION OF
PINE WATER COMPANY FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE AND FOR
APPROVAL TO INCUR LONG-TERM DEBT

Docket No. W-03512A-03-0279

NOTICE OF FILING

The Arizona Corporation Commission Staff gives notice of filing the Direct Testimony of
John S. Thornton, Claudio M. Fernandez and Marlin Scott, Jr.

RESPECTFULLY SUBMITTED this 15th day of October, 2003.

ARIZONA CORPORATION COMMISSION

By:

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1 Original and 13 copies of the foregoing filed
2 this 15th day of October, 2003, with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, Arizona 85007

7 Copy of the foregoing mailed this 15th day
8 of October, 2003, to:

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**DIRECT
TESTIMONY**

OF

**JOHN S. THORNTON
CLAUDIO M. FERNANDEZ
MARLIN SCOTT, JR.**

DOCKET NO. W-03512A-03-0279

**IN THE MATTER OF THE APPLICATION OF
PINE WATER COMPANY FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY, A RATE INCREASE AND FOR
APPROVAL TO INCUR LONG-TERM DEBT**

OCTOBER 15, 2003

THORNTON

BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER

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IN THE MATTER OF THE APPLICATION OF)
PINE WATER COMPANY FOR A)
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PROPERTY, A RATE INCREASE AND FOR)
APPROVAL TO INCUR LONG-TERM DEBT)

DOCKET NO. W-03512A-03-0279

DIRECT

TESTIMONY

OF

JOHN S. THORNTON

CHIEF, FINANCIAL & REGULATORY ANALYSIS SECTION

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

OCTOBER 15, 2003

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**EXECUTIVE SUMMARY
DIRECT TESTIMONY
OF
JOHN S. THORNTON
W-03512A-03-0279**

The direct testimony of Staff witness Mr. John S. Thornton discusses Pine Water Company's ("Pine" or the "Company") request to issue debt and stock to finance a \$533,599 inter-company payable owed to Brooke Utilities, Inc. ("Brooke"), Pine's parent company. The payable is an accumulation of operating expenses that Brooke has funded on Pine's behalf.

Staff recommends denying the financing application because the request is inconsistent with Arizona Revised Statute ("A.R.S") § 40-302(A). A.R.S. § 40-301 through § 40-303 are the financing statutes under which the Commission operates. If the Commission does approve the debt portion of the financing request then it should approve a debt with substantially different terms and at an arms-length-transaction interest rate.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is John S. Thornton, Jr. I am the Chief of the Financial and Regulatory Analysis
4 Section of the Utilities Division ("Staff"), Arizona Corporation Commission ("ACC" or
5 "Commission"). My business address is 1200 West Washington Street, Phoenix, Arizona
6 85007.

7
8 **Q. Please describe your educational background and professional experience.**

9 A. Please see my Witness Qualifications Statement, attached as Exhibit JST-1, for a synopsis
10 of my educational background and professional experience.

11
12 **Q. What is the scope of your testimony in this case?**

13 A. I provide Staff's recommendation on Pine Water Company's ("Pine" or the "Company")
14 financing request to issue \$355,599 of equity to Brooke Utilities, Inc. ("Brooke"), and
15 \$178,000 of debt to Brooke. I also address why Staff does not provide rate of return
16 testimony in its direct testimony. The reason why Staff does not provide a rate of return in
17 this case is that the Company reports negative equity. A return on equity analysis is not
18 helpful when a company has negative equity.

19
20 **FINANCING APPROVAL FOR THE ISSUANCE OF DEBT AND EQUITY**

21 ***Debt***

22 **Q. Does Staff recommend approval of the Company's application to issue long-term**
23 **debt?**

24 A. No. The financing request appears to be inconsistent with Arizona Revised Statute § 40-
25 302(A) because the proceeds from the proposed debt issuance are intended to repay an
26 account payable to Brooke that was incurred to cover operating expenses.

1 **Q. Please explain the Company's application for approval to issue long-term debt.**

2 A. The Company seeks approval to convert a \$533,599 inter-company payable to \$355,599 in
3 paid-in capital (equity) and \$178,000 in long-term debt payable to its parent, Brooke
4 Utilities. The Company proposes to amortize the \$178,000 note over five years at an
5 annual interest rate of 10.0 percent.

6
7 **Q. What is the \$533,599 inter-company payable related to?**

8 A. According to the direct testimony of Company witness Thomas Bourassa, the inter-
9 company payable is related to wheeling charges owed to Brooke for deliveries of water
10 through Project Magnolia, the water transmission project owned and operated by Brooke
11 Utilities. (See testimony of Thomas Bourassa, page 11 at 8 to 13.) Mr. Bourassa also
12 testifies that the inter-company payable is related to other operating expenses.

13
14 **Q. Has Staff been able to verify that the \$533,599 inter-company payable is related to
15 the Project Magnolia wheeling charges?**

16 A. No. In fact, Staff witness Claudio Fernandez analyzed the general ledger and found that
17 none of the accrued balance is related to wheeling charges. The account payable balance
18 appears to be accrued for other operating expenses.

19
20 **Q. Is financing operating expenses with equity or long-term debt appropriate?**

21 A. No, financing operating expenses with equity or debt is generally inappropriate and
22 appears to be a violation of A.R.S. § 40-302(A) (though I am not a lawyer). An
23 appropriate use of the proceeds from securities' issuances would be to finance Project
24 Magnolia itself.

25
26 **Q. Is the proposed loan an arms-length negotiated transaction?**

1 A. No. The proposed loan is not an arms-length transaction. Mr. Bourassa provides no
2 evidence that the proposed loan from Brooke to its subsidiary Pine is similar in its terms
3 and conditions to an arms-length transaction.
4

5 **Q. Are the terms of the proposed loan reasonable?**

6 A. No. Financing long-lived assets (who have lives approaching forty years at a 2.5 percent
7 depreciation rate) with debt maturing in five years is inappropriate. Long-lived assets
8 should be primarily financed with debt maturing in more than five years, all else equal and
9 if at all possible. Staff recommends a maturity of no less than fifteen years on the
10 Company's proposed financing if the Commission was to approve the loan. If a loan is
11 approved then the Commission should limit the use of the proceeds to the purchase or
12 refinance of plant or other long-term assets.
13

14 **Q. Is the Company's proposed 10.0 percent interest rate reasonable?**

15 A. No. The rate on high yield corporate (junk) bonds was 8.30 percent¹ on October 7, 2003,
16 according to *The Wall Street Journal* of October 8, 2003.
17

18 **Q. What is the Water Infrastructure Finance Authority's non-subsidized rate?**

19 A. The Water Infrastructure Finance Authority's non-subsidized rate is 6 percent.
20

21 **Q. What have rates been on other recent water company financings?**

22 A. I have found two other financings. The Community Water Company of Green Valley
23 secured a loan from Bank One at the Prime Rate plus 0.5% (Docket No. W-02034A-02-
24 0399) and the Ashfork Water Service company issued debt to the US Department of
25 Agriculture at 4.75 percent (Docket No. W-01004B-02-0768).

¹ Based on Merrill Lynch Bond Indexes.
W-03512A-03-0279

1 **Q. What is a reasonable debt rate if the Commission were to approve the loan?**

2 A. A reasonable rate on the debt could be two (2) percentage points above the Prime Rate.
3 The Prime Rate as of October 7, 2003, was 4 percent. Therefore, a reasonable interest rate
4 on Pine's debt would be 6 percent (4 percent plus 2 percent).

5
6 **Q. What is a reasonable term?**

7 A. A reasonable term would be fifteen (15) years.
8

9 ***Equity***

10 **Q. What does Staff recommend regarding Pine's request to issue equity to Brooke?**

11 A. Staff recommends denying the request for the same reasons as above regarding the debt:
12 the proceeds are being used to refinance the inter-company payable which was incurred
13 for operating expenses. Issuing equity to finance operating expenses is inconsistent with
14 A.R.S. § 40-301.
15

16 ***Conclusion***

17 **Q. What does Staff recommend regarding the Company's request to issue equity and**
18 **long-term debt to Brooke?**

19 A. Staff recommends that the Commission deny the financing application because the
20 account payable to Brooke was for operating expenses and financing operating expenses
21 with securities (debt or equity) is inappropriate pursuant to A.R.S. § 40-301.
22

23 **STAFF'S DIRECT RATE OF RETURN TESTIMONY**

24 **Q. Why is Staff not filing any direct testimony on rate of return?**

25 A. Staff is not filing any direct testimony on the rate of return because the Company's
26 application reflects negative equity of \$153,000 (see Mr. Bourassa's exhibit D-4.13). A

1 rate of return, or more specifically a return on equity, is not a helpful method to set
2 revenue requirement when a Company has negative equity. Therefore, Staff is not filing
3 direct testimony on rate of return.
4

5 **Q. Why is the traditional method of "rate-base-rate-of-return regulation" unhelpful to**
6 **set revenue requirement when a Company has negative equity?**

7 A. Rate-base-rate-of-return regulation is not helpful to set revenue requirement when a
8 Company has negative equity because multiplying a positive return on equity by a
9 negative equity balance results in negative dollar return on equity, thereby implying a loss.
10 The result of a utility's rates being set so that it is expected to lose money is not a helpful
11 or viable method to set rates if one expects the utility to stay in business.
12

13 **CONCLUSION**

14 **Q. Please summarize your recommendations.**

15 A. Staff recommends the Commission deny Pine Water Company's financing application. If
16 the Commission does approve the debt portion of the financing application then it should
17 only approve a loan with a maturity more consistent with Pine's financing long-term
18 assets (Staff recommends fifteen years) and at a rate that reflects an arms-length
19 transaction. Staff recommends a 6 percent interest rate given the information it has at this
20 time.
21

22 **Q. Does this conclude your direct testimony?**

23 A. Yes, it does.

Witness Qualifications Statement

NAME: JOHN S. THORNTON, JR.

ADDRESS: 1200 West Washington St. Phoenix, AZ 85007

EDUCATION: Master of Science Degree from the University of London, having completed the graduate program in economics at The London School of Economics and Political Science (1986)

Graduate Diploma in Economics from The London School of Economics (1985).

Bachelor of Arts degree, major in economics, from Willamette University (1984).

Certified Rate of Return Analyst, member of the Society of Utility and Regulatory Financial Analysts.

1998 passed level I of the CFA
1995 PaineWebber Seminar on Corporate Finance for the Utility Industry.
1990 MIT/Harvard Public Disputes Resolution Program seminar.
1990 National Association of Regulatory Utility Commissioners (NARUC) Advanced Regulatory Studies Program.
1988 NARUC Annual Regulatory Studies Program.

EXPERIENCE: Chief, Financial & Regulatory Analysis Section, Utilities Division, Arizona Corporation Commission, 2001 to present.

- Testified in the following dockets:
- W-01656A-98-0577 & WS-02334A-98-0577—Sun City Water Co. and Sun City West Utilities Co.'s request for approval of the Central Arizona Project water utilization plan.
- E-01345A-02-0707—Arizona Public Service Co.'s application for authority to incur \$500,000,000 of debt and to acquire a financial interest in an affiliate.
- E-01345A-02-0840—Arizona Public Service Co.'s application for authority to loan \$125,000,000 of debt to an affiliate.
- E-01345A-02-0403—Arizona Public Service Co.'s application for approval of adjustment mechanisms.
- E-01032-00-0751, G-01032A-02-0598, E-01933A-02-0914, E-1032C-02-0914, G-01032A-02-0914—Consolidated dockets of UniSource, Citizens Communications Arizona Gas Division (AGD), & Citizens Communications Arizona Electric Division (AED); general rate case for the AGD, PPFAC adjustment for AED, and sale of AGD and AED to UniSource.
- W-01445A-02-0619—Arizona Water Company's application for rates and charges for eight systems. Testimony on implementing lifeline rates and marginal cost pricing into rate design, resulting in inverted block rates.

Witness Qualifications Statement (continued)

Senior Analyst with the Public Utility Commission of Oregon, 1988-2001.

- Testified or provided rate of return analyses in the following dockets:
- UE 102—PGE disaggregation/general rate case (chief rate of return witness).
- UE 94—PacifiCorp general rate case (chief rate of return witness).
- UE 93 (UM 592, UM 694)—Portland General Electric Co. excess power cost/Coyote/BPA filing.
- UE 92—Idaho Power general rate case.
- UE 88—Portland General Electric Co. general rate case (chief rate of return witness).
- UE 85/UM 529—Portland General Electric Co. Earnings test for Trojan Shutdown Cost Adjustment Account.
- UE 84—Idaho Power Co. deferred account earnings benchmark.
- UE 82/UM 445—Trojan Outage Cost Adjustment Account earnings test benchmark.
- UE79—Portland General Electric Co. general rate case (chief rate of return witness).
- UG 104/UG 105/UG 106—LDC deferred account earnings test benchmarks.
- UG88—Cascade Natural Gas Co. general rate case (chief rate of return witness).
- UG81—Northwest Natural Gas Co. general rate case (chief rate of return witness).
- UT 125—US WEST Communications, Inc general rate case (chief rate of return witness).
- UT 113—GTE Northwest general rate case (chief rate of return witness).
- UT101—United Telephone Co. of the Northwest general rate case (chief rate of return witness).
- UT85—US WEST general rate case (capital structure and debt cost witness).
- RP95-409—Northwest Pipeline general rate case (FERC).
- RP93-5—Northwest Pipeline general rate case (FERC).

Responsibilities have also included the following:

- Analyses and recommendations in over fifty financing dockets.
- UM 903—Northwest Natural, cost of capital analysis for purchased gas adjustment mechanism.
- UM 21—Cost of capital analysis for avoided cost calculations.
- UM 351—Cost of capital analysis for long-run incremental-cost studies.
- UM 573—Analysis of purchased power on the utility's cost of capital.
- UM 773—Cost of capital analysis for long-run incremental-cost studies.
- UM 814—Enron's application to acquire Portland General Electric Co.
- UM 918—Scottish Power plc's application to acquire PacifiCorp.
- UM 967—Sierra Pacific Resource's application to acquire Portland General Electric Co.

Speaker—US Agency for International Development's Conference on Private Sector Participation in the Colombian Power Sector.

Witness Qualifications Statement (continued)

Presented beta adjustment and distribution risk discount testimony on behalf of the Division of Ratepayer Advocates of the California Public Utility Commission, Application Nos. 98-05-019, 021, & 024.

Sierra Pacific Power Co. compliance filing docket no. 99-4001 and Nevada Power Co. compliance filing no. 99-4005: rate of return witness for intervenors Mirage Resorts, Inc., Park Place Entertainment Corp., and the Mandalay Group.

Corporate finance witness for the Industrial Customers of Northwest Utilities, Docket No. UE 010395, Avista Utilities.

Docket Nos. 01-10001 and 01-10002 re: application of Nevada Power Co. for authority to increase its annual revenue requirement for general rates charged to all classes of electric customers and for relief properly related thereto: Rate of return witness for intervenors MGM-Mirage.

FERNANDEZ

BEFORE THE ARIZONA CORPORATION COMMISSION

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DEBT)
_____)

DOCKET NO. W-03512A-03-0279

DIRECT

TESTIMONY

OF

CLAUDIO M. FERNANDEZ

PUBLIC UTILITIES MANAGER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

OCTOBER 15, 2003

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EXECUTIVE SUMMARY

Pine Water Company serves the Community of Pine which is located approximately 15 miles northwest of Payson, in Gila County. The Company serves approximately 2,000 customers. The Company's last rate increase was effective on March 31, 2000.

The instant application is requesting that the Commission approve an increase in revenues of \$269,012 or 41.1 percent over its adjusted test year revenue of \$654,048. This increase would result in an operating income of \$74,324 for a 10.93 percent rate of return on an original cost rate base ("OCRB") of \$680,032. The Company is also requesting approval to convert an inter-company account payable owed to Brooke Utilities of \$533,599. The Company is requesting approval to incur long-term debt of \$178,000 and the remaining account payable balance of \$355,599 would be converted to equity.

The Company is also requesting approval to collect a Water Exploration Surcharge of \$10.00 per customer per month in connection with implementation of the Company's proposed Water Supply Augmentation Plan.

In addition, the Company is requesting an adjustor mechanism to recover purchased water hauling costs.

Staff is recommending a revenue increase of \$46,724 or 7.14 percent over Staff's adjusted test year revenues of \$654,048. This increase would result in an operating income of \$70,052 resulting in an operating margin of 10 percent or an 11.05 percent rate of return on an OCRB of \$633,958.

Staff further recommends that the Water Exploration Surcharge not be implemented at this time until the parties have an opportunity to further discuss the issues. Consequently, Staff recommends bifurcating the exploration surcharge issue from the rate case as a separate phase of the same docket. In the event that Staff's recommendation regarding bifurcation is not accepted, Staff would not recommend the implementation of the surcharge. Staff believes that the surcharge request is vague in that it lacks the necessary specific details as to how and for what purpose the surcharge would be used.

Staff further recommends denial of the Company's request for approval to convert an inter-company account payable owed to Brooke Utilities of \$533,599.

Staff further recommends the approval of a purchased water adjustor mechanism rate to be implemented to recover the cost of hauling water via truck.

Staff further recommends denial of certain service charges and fines requested by the Company.

1 **INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Claudio M. Fernandez. My address is, 1200 West Washington Street,
4 Phoenix, Arizona 85007.

5
6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed by the Utilities Division of the Arizona Corporation Commission
8 ("Commission") as a Public Utilities Manager.

9
10 **Q. Please summarize your educational background and professional experience.**

11 A. I obtained a Bachelor's Degree in Business Administration majoring in Accounting in
12 1973 from the University of Texas. I have been involved in the regulation of public
13 utilities since 1989.

14
15 From March 1978 to June 1981, I was Accounting Manager at Sun Valley Hospital in El
16 Paso, Texas. In this capacity, I was responsible for all fiscal services and general ledger
17 maintenance. I also supervised the function of the Accounts Payable and Payroll
18 Departments. I prepared cash flow projections and reviewed the annual operating budget.
19 Finally, I was responsible for the preparation of the annual Medicare Cost Report in
20 compliance with the U.S. Department of Health guidelines.

21
22 From July 1981 to October 1984, I was employed by Fairall, Quindt & Cummins as a
23 Staff Accountant in the Houston, Texas branch of this public accounting firm. I
24 formulated and executed audit plans regarding financial statements of diverse industries
25 such as health care, manufacturing, construction, and oil concerns. I also assisted in the

1 preparation of the Securities Exchange Commission's ("SEC") 10 K Form in compliance
2 with SEC guidelines.

3
4 From December 1984 to July 1988, I was employed by Valley Community Hospital in El
5 Paso, Texas as Assistant Controller. I was responsible for performing comprehensive
6 accounting functions, including supervision of four departments.

7
8 In June 1989, I joined the Commission. My duties include developing, guiding and
9 assisting a team of public utility analysts in reviewing financial records and other
10 documents of regulated utilities for accuracy, completeness and reasonableness; the
11 preparation of work papers and schedules resulting in testimony and/or Staff reports for
12 rate making purposes regarding utility applications for increase in rates, financings and
13 other matters.

14
15 **PURPOSE OF TESTIMONY**

16 **Q. What is the purpose of your testimony in this proceeding?**

17 A. I am presenting Staff's analysis and recommendations concerning original cost rate base
18 ("OCRB"), the revenue requirement and rate design regarding the Pine Water Company
19 ("Pine Water" or "Company") rate increase application.

20
21 **Q. What is the basis for Staff's recommendations?**

22 A. Staff performed a regulatory audit of the Company's records to determine whether
23 sufficient, relevant and reliable evidence exists to support Pine Water's claims in its rate
24 application. The regulatory audit consisted of examining and testing accounting ledgers
25 and reports, checking the accumulation of amounts in the records, tracing recorded
26 amounts to source documents, verifying the correct application of data with applicable

1 standards of third parties, and verifying that the accounting principles applied are in
2 accordance with the Commission authorized Uniform System of Accounts.

3
4 In addition, Staff engaged in discussions with Company representatives and made several
5 written requests for data. Staff also made inquiries to other governmental agencies and
6 third parties to request data.

7
8 **Q. What test year was used by the Company in this filing?**

9 A. Pine Water used a historical test year of the twelve months ending December 31, 2002.
10 Pro forma adjustments were also proposed. These pro forma adjustments were items
11 purported to be "known and measurable".

12
13 **Q. Did Staff accept the test year as proposed by the Company?**

14 A. Yes. The test year selected is the most recent fiscal year and should present a fairly
15 accurate presentation of Pine Water's financial position and operations.

16
17 **Q. What is meant by "known and measurable"?**

18 A. In the context of rate regulation "known and measurable" means that the effects on the
19 company can be quantified and will occur with virtual certainty. However, the application
20 of the known and measurable standard is subject to professional interpretation and
21 judgment.

22
23 **Q. Does Staff disagree with any of the Company's pro forma adjustments?**

24 A. Yes. The Company made several pro forma adjustments to rate base and operating
25 expenses in its filing with which Staff does not agree. These items will be discussed in
26 more detail under the sections entitled OCRB and Operating Expenses.

27

1 **BACKGROUND**

2 **Q. Please briefly describe Pine Water's operation.**

3 A. Pine Water is a wholly-owned subsidiary of Brooke Utilities, Inc. The water system is
4 located in Pine, Arizona which is northwest of Payson in Gila County Arizona. The
5 system is not located in an Active Management Area ("AMA"). The Company served
6 approximately 1,850 customers in the test year. The Company is presently serving
7 approximately 2,000 customers. This recent growth is the result of changes in
8 Commission orders prohibiting new connections in Pine Water's certificated area. These
9 changes allowed a number of new connections from the Company's waiting list.

10
11 The Company has traditionally experienced water shortages particularly in the summer
12 months. In an effort to increase water production, Decision No. 65435, dated December 9,
13 2002, ordered the Company to file a rate increase application by May 1, 2003, and to
14 include in its filing a detailed plan showing how it will address its water shortage problem
15 and a customer education program.

16
17 **SUMMARY OF COMPANY'S PROPOSALS**

18 **Q. Would you briefly summarize the Company's proposals.**

19 A. The Company is requesting an increase in revenues of \$269,012 or 41.1 percent over its
20 adjusted test year revenue of \$654,048. This increase would result in an operating income
21 of \$74,324 for a 10.93 percent rate of return on an OCRB of \$680,032. The Company is
22 also requesting approval to convert an inter-company account payable owed to Brooke
23 Utilities of \$533,599. The Company is requesting approval to incur long-term debt of
24 \$178,000 and the remaining account payable balance of \$355,599 would be converted to
25 equity.

26

1 The Company is also requesting approval to collect a Water Exploration Surcharge of
2 \$10.00 per customer per month in connection with implementation of the Company's
3 proposed Water Supply Augmentation Plan.

4
5 In addition, the Company is requesting an adjustor mechanism to recover purchased water
6 hauling costs and the cost of the water sharing agreements. According to the Company,
7 this mechanism should be implemented to assure recovery of purchased water costs.

8
9 **SUMMARY OF STAFF'S RECOMMENDATIONS**

10 **Q. Please briefly summarize Staff's recommendations**

11 **A.** Staff is recommending a revenue increase of \$46,724 or 7.14 percent over Staff's adjusted
12 test year revenues of \$654,048. This increase would result in an operating income of
13 \$70,052 resulting in an operating margin of 10 percent or an 11.05 percent rate of return
14 on an OCRB of \$633,958 as shown in Schedule CMF-1.

15
16 Staff further recommends that the Water Exploration Surcharge not be implemented at this
17 time until the parties have an opportunity to further discuss the issues. Consequently,
18 Staff recommends bifurcating the exploration surcharge issue from the rate case as a
19 separate phase of the same docket. In the event that Staff's recommendation regarding
20 bifurcation is not accepted, Staff would not recommend the implementation of the
21 surcharge. Staff believes that the surcharge request is vague in that it lacks the necessary
22 specific details as to how and for what purpose the surcharge would be used.

23
24 Staff further recommends denial of the Company's request for approval to convert an
25 inter-company account payable owed to Brooke Utilities of \$533,599. Please refer to
26 Staff witness Mr. John Thornton's testimony.
27

1 Staff further recommends the approval of a purchased water adjustor mechanism rate to be
2 implemented to recover the cost of hauling water via truck.

3
4 Staff further recommends denial of certain service charges and fines requested by the
5 Company.

6
7 **ORIGINAL COST RATE BASE**

8 **Q. Did Staff prepare a schedule comparing the Company's OCRB proposed and Staff's**
9 **adjusted OCRB?**

10 A. Yes. Please refer to Schedule CMF-3.

11
12 **Q. Is Staff recommending any changes to the Company's proposed OCRB?**

13 A. Yes. The Company proposed an OCRB of \$680,033. Staff is recommending an OCRB of
14 \$633,958 or a net difference of \$46,075. This net difference is the result of a number of
15 adjustments.

16
17 **Q. Has the Company prepared a schedule showing the elements of Reconstruction Cost**
18 **New Rate Base ("RCND")?**

19 A. No. The Company did not file any RCND schedules. Consequently, the possibility of
20 using RCND is deemed waived according to Commission rules. Therefore, OCRB is used
21 for Fair Value Rate Base ("FVRB") in this case.

22
23 **Q. Please explain Staff's adjustments to Plant in Service.**

24 A. Staff's adjustments to plant in service resulted in an increase of \$374,163 as shown in
25 Schedule CMF-5. This increase was the result of removing the Company's pro forma
26 adjustment increase of \$75,435 and the addition of the Project Magnolia Pipeline of
27 \$449,598.

1 Staff's removal of the Company's pro forma adjustment reduced the following plant
2 accounts and amounts:

3
4 Wells and Springs - \$17,100; Pumping Equipment - \$20,335; Transmission & Distribution
5 Mains - \$8,000; and Meter and Meter Installations - \$30,000 for a total of \$75,435.

6
7 According to the Company's filing, its pro forma adjustment increases plant for post test
8 year plant additions that will be completed by December 31, 2003. However, in response
9 to Staff's data request the Company updated the status of these projects and indicated they
10 would not be completed by December 31, 2003, as originally stated. Therefore, the
11 projects were not considered used and useful (please refer to Staff witness Mr. Marlin
12 Scott's testimony).

13
14 Staff also increased plant in service by \$449,598 which represents the addition of Project
15 Magnolia to the Transmission and Distribution Mains plant category. According to the
16 Company, this 10,800 feet pipeline that inter-connects Pine Water to the Strawberry water
17 system is owned and operated by Brooke Utilities Inc. ("BUI"). BUI then bills the
18 Company \$15.00 per thousand gallons to transport the water from Strawberry to Pine
19 (wheeling charges). Please refer to the Operating Expenses section of the testimony for
20 further details.

21
22 In Staff's opinion, the cost of the Project Magnolia pipeline should be recorded in the
23 Company's books. On February 23, 1999, E & R Water Company (Pine Water's
24 predecessor) filed a permanent rate increase and financing application under Docket No.
25 W-01576A-99-0277 which resulted in Decision No. 62400, dated March 31, 2000. The
26 plant in service in the above mentioned application reflected Construction Work in
27 Progress ("CWIP") of \$334,242 which represented the cost of Project Magnolia up to the

1 time of the filing. Staff removed this item from rate base because it was not used and
2 useful. However, the fact that the application reflected approximately 75 percent of
3 Project Magnolia's cost in the books and records of the Company clearly established
4 ownership status.

5
6 Furthermore, the above mentioned application requested Commission authority to issue
7 \$650,000 of E & R Water Company's common stock for the purpose of funding capital
8 improvements subsequent to June 30, 1998. Exhibit 5 of the Company's application
9 labeled E & R Water Co. Inc. - Capital Expenditure Budget 1999 through 2003, listed
10 Project Magnolia as one the Company's undertaking to be funded by the stock issuance.

11
12 **Q. Does Staff have any additional comments regarding Plant in Service?**

13 A. Yes. The Company's application did not show any plant retirements from July 1, 1998,
14 through December 31, 2002. In Staff's opinion, it is an unlikely event that in a span of
15 four and one-half years no plant assets were retired. Accordingly, Staff recommends that
16 plant ledger records be accurately maintained to reflect retired plant as accurately as the
17 recorded plant additions.

18
19 **Q. Please explain Staff's adjustment to Accumulated Depreciation.**

20 A. Staff's adjustments to Accumulated Depreciation resulted in an increase of \$29,448 as
21 depicted in Schedule CMF-6. This adjustment consisted of the additional depreciation
22 expense associated with the addition to plant in service of Project Magnolia from the time
23 it was devoted to public service (February 2000) through December 31, 2002.
24

1 **Q. Please explain Staff's adjustments to Contributions in Aid of Construction**
2 **("CIAC").**

3 A. Staff's adjustment to CIAC as shown in Schedule CMF-3 did not change the CIAC
4 balance. Staff's adjustment simply listed the Gross CIAC of \$958,323 and the related
5 Accumulated Amortization of \$494,931.

6
7 **Q. Please explain Staff's adjustment to Deferred Tax Assets.**

8 A. Staff removed the Company's addition to rate base of \$369,000 of Deferred Tax Assets.
9 According to the Company, the deferred income tax asset was the result of temporary
10 timing differences between book and tax depreciation rates. In other words, the use of
11 longer depreciation lives for tax purposes than the depreciation rates used for ratemaking
12 purposes created the asset.

13
14 **Q. Is Pine Water tax normalized?**

15 A. No. Staff was unable to find any documentation indicating that the Company had sought
16 approval or that the Commission had authorized normalization of income taxes in
17 ratemaking.

18
19 **Q. Is there any other reason Staff is not recommending recognition of the Deferred Tax**
20 **Asset?**

21 A. Another reason Staff is not recommending recognition of the Deferred Tax Asset is that
22 the customers of Pine Water provided, through rates, cost recovery at a higher
23 depreciation rate. In addition, the Company is requesting to increase its revenue
24 requirements by adding the tax asset to its rate base.

25

1 However, by not electing to use accelerated methods of depreciation in its income tax
2 return, the Company ignored the opportunity to provide the ratepayers with the benefit of
3 zero cost capital.

4
5 **Q. Please explain Staff's adjustment to Working Capital.**

6 A. Staff's adjustment decrease of \$21,790 to working capital allowance was predicated upon
7 Staff's adjustments to operating expenses.

8
9 **OPERATING REVENUES AND EXPENSES**

10 **Q. Did Staff prepare a schedule representative of the Company's and Staff's adjusted**
11 **revenues and expenses?**

12 A. Yes, please refer to Schedule CMF-9.

13
14 **Q. Is Staff recommending any changes to the test year operating revenue?**

15 A. No. Staff accepted the Company's test year revenue as depicted in Schedule C-1.

16
17 **Q. Is Staff recommending any changes to the Company's proposed operating expenses?**

18 A. Yes. The Company proposed operating expenses of \$848,735. Staff is recommending
19 operating expenses of \$630,719 or a difference of \$218,016.

20
21 **Q. Please explain how Staff organized its adjustments to the Company's proposed**
22 **operating expenses.**

23 A. Staff's utilized the Company's expense classifications and made adjustments accordingly.

24
25 **Q. What is Staff's adjustment to Purchased Water?**

26 A. Staff reduced Purchased Water by \$6,427 from \$64,262 to \$57,835. This adjustment
27 consisted of reclassifying \$3,437 to Contractual Services-Other for meter reading charges

1 regarding Ms. Patricia Behm for the months of March, April, May, June and September.
2 The second part of this adjustment reclassified invoice no. 990585 from Buds Plumbing of
3 \$807 to Materials and Supplies account. Staff further reduced this expense account by
4 \$2,183 which represents purchased water hauled from Starlight Water Company. This
5 adjustment was made so the balance of this account reflects the cost of the water
6 purchased through water sharing agreements and from Strawberry Water Company. In
7 other words, this account does not consider water purchases that are hauled via truck to
8 the Company's premises because those costs would be recovered by the water hauling
9 adjustor mechanism described below.
10

11 **Q. What is Staff's recommendation regarding the Company's proposed purchased**
12 **water adjustor mechanism?**

13 A. Staff recommends approval of a water hauling adjustor mechanism similar to the one
14 approved in Decision No. 65914, dated May 16, 2003. The water hauling adjustor
15 mechanism would only be implemented to recover the cost of the purchased water that is
16 transported to the Company via truck only and the cost of transporting the water. In other
17 words, the water received by the Company through Project Magnolia and water sharing
18 agreements is not physically transported via truck, therefore, not recoverable through the
19 water hauling adjustor mechanism.
20

21 **Q. Please explain how the water hauling adjustor rate is calculated.**

22 A. The adjustor rate would be calculated by dividing the sum of the cost of the purchased
23 water and transportation charges less any amounts collected as a result of curtailment fines
24 by the gallons sold during the same period to arrive at a per thousand gallon rate. The
25 resulting rate would then be multiplied by the customer usage to arrive at the amounts to
26 be recovered for that particular month. In the case where no water is hauled by truck,
27 there would not be a water hauling adjustor to be applied.

1 **Q. Are there any additional recommendations regarding the water hauling adjustor?**

2 A. Yes, Staff recommends that the Company submit a report to the Compliance Unit of the
3 Commission's Utilities Division detailing the calculation of the water hauling adjustor rate
4 including copies of invoices for purchased water and hauling expenses for the month.

5
6 **Q. What is Staff's adjustment to Materials and Supplies?**

7 A. Staff decreased this expense by \$17,630 from the Company's proposed amount of \$42,923
8 to \$25,293. Staff reclassified an invoice from Buds Plumbing of \$807 from Purchased
9 Water to Materials and Supplies. Staff's recommended expense level was derived by
10 averaging the three years reflected in the Company's Schedule E-2. Schedule E-2 depicts
11 the expenses incurred for the year 2000 of \$11,202; year 2001 of \$4,447; and 2002 of
12 \$60,230 (\$59,423+\$807). The sum of those years equal \$75,879 divided by three equals
13 \$25,293.

14
15 **Q. Please explain how the Company determined its proposed expense level.**

16 A. The Company determined its proposed expense level by subtracting \$16,500 from the test
17 year balance of \$59,423 or \$42,293. It should be noted that this expense increased
18 significantly from \$4,447 in year 2001 to \$60,230 in the test year due to many repairs to
19 the system. However, the Company recognized that on a going-forward basis this level of
20 expense would not be re-occurring. Therefore, the Company's reduced this expense to
21 reflect Pine Water's management estimation of the level of expense expected on a going
22 forward basis.

23
24 **Q. What is Staff's adjustment to Transportation Expense?**

25 A. Staff removed wheeling expenses of \$174,645 which represents the cost of transporting
26 purchased water from the Strawberry water system to Pine Water through the Project
27 Magnolia pipeline. The Company was billed \$15.00 per 1,000 gallons for wheeling

1 charges by BUI for the services of the pipeline. According to the Company, this charge is
2 applicable because the Company does not own Project Magnolia and Pine Water
3 recognized the reasonableness of the wheeling charge by BUI. However, Staff believes
4 that Project Magnolia pipeline is owned by the Company and the wheeling charges are not
5 applicable.

6
7 **Q. Is BUI regulated by the Commission?**

8 A. No. BUI, the parent company of Pine Water, is not regulated by the Commission.
9 Therefore, the Commission did not approve the \$15.00 per thousand gallon rate charged
10 by BUI.

11
12 **Q. Please explain Staff's adjustment to Sales Tax expense.**

13 A. Staff removed a credit balance of \$380. This expense category should have been adjusted
14 to a zero balance when the sales and use tax were removed from revenues.

15
16 **Q. What is Staff's adjustment to Rate Case expense?**

17 A. Staff reduced Rate Case expense by \$16,667 as a result of its recommended amortization
18 period of 4.5 years instead of three years as proposed by the Company. Staff's
19 amortization period is consistent with the time elapsed between the test year used in the
20 last rate increase of June 30, 1998, and the test year in the instant application of December
21 31, 2002.

22
23 **Q. Please explain Staff's adjustment to Depreciation Expense.**

24 A. Staff increased depreciation expense by \$6,847. This adjustment consisted of an increase
25 of \$8,992 which represents one year of depreciation due to the addition of the Project
26 Magnolia pipeline ($\$449,600 \times 2.00\% = \$8,992$). The second part of this adjustment

1 consisted of a reduction of \$2,746 as a result of removing the Company's pro forma plant
2 as explained in the OCRB section of the direct testimony.

3
4 **Q. Please explain Staff's adjustment to Property Taxes expense.**

5 A. Staff decreased this expense by \$5,624 as a result of the new methodology developed by
6 the Department of Revenue and consistent with Staff's recommended increase in revenue
7 as shown in Schedule CMF-17.

8
9 **Q. What is Staff's adjustment to Income Tax expense?**

10 A. Staff's adjustment increased income taxes in the test year by \$47,815 from (\$45,951) to
11 \$1,864 consistent with Staff's adjustments to operating expenses. At proposed rates,
12 income taxes were increased by \$9,744 based on Staff's recommended level of revenues
13 and expenses.

14
15 **RATE OF RETURN**

16 **Q. Please explain how Staff determined its recommended rate of return.**

17 A. Staff did not recommend a rate of return based on a cost of capital study. Staff believes
18 that a cost of capital is not warranted due to the Company's negative equity (please refer
19 to Staff witness John Thornton's testimony). Therefore, Staff's rate of return is the result
20 of a 10 percent operating margin.

21
22 **RATE DESIGN**

23 **Q. Has Staff prepared a schedule representative of the Company's proposed rates and**
24 **charges?**

25 A. Yes, please refer to Schedule CMF-9.
26

1 **Q. Please explain Staff's recommended rate design.**

2 A. Staff is adopting the Company's proposed winter and summer rate structure as well as the
3 three-tier rate design concept. The winter months consist of October, November,
4 December, January, February, March and April. The Company's proposed rate design
5 allows more gallons in the tiers for meter sizes larger than 3/4-inch while Staff recommends
6 the same number of gallons regardless of meter size. In response to Staff's data request
7 the Company stated that since the monthly minimum charges are scaled upward based on
8 the 5/8 x 3/4-inch meter and the larger meter sizes are charged correspondingly higher
9 minimum charges, the larger meters should be allowed more gallons in each tier.

10
11 Staff's recommended rate design is different from the Company's in that it maintained the
12 same number of gallons in each tier regardless of meter size. In Staff's opinion, the
13 inclusion of more gallons in the larger meter sizes is not compatible with conservation
14 efforts. Staff believes that usage patterns should determine the gallons included in the
15 tiers and not the minimum monthly charge.

16

17 **Q. Is the Company requesting new Service Charges in its proposed tariff?**

18 A. Yes, the Company is requesting that the Commission approve certain service charges and
19 fines for Cut Locks, Meter Removal, Illegal Supply, and Water Theft. In addition, the
20 requested fines are increased based on the number of offenses. Staff is not recommending
21 approval of the service charges or fines described above. It is not clear to Staff that the
22 Company would establish customer responsibility for the cutting of locks, removal of a
23 meter, illegal water supply or water theft before applying the Service Charge to the
24 Customer's bill. The Commission is not the proper agency to make such a factual inquiry
25 in the event such charge were disputed. The Company should use established criminal
26 and civil proceedings in the event it believes itself to be the victim of a crime or civil
27 wrongdoing.

WATER AUGMENTATION SURCHARGE

Q. Did Staff review the water augmentation surcharge calculations authorized in Decision No. 65914?

A. Yes, Staff reviewed the surcharge calculations and the resulting rates for the months of June, July and August. Staff's analysis consisted of verifying that the invoices for water hauling cost incurred in those months were appropriate and mathematically correct. As a result of this analysis, Staff found a minor overcharge in the month of August of \$766.57, which the Company promptly corrected by crediting the bills of all customers that were billed for the surcharge in July 2003.

STAFF RECOMMENDATIONS

Q. Please summarize Staff's recommendations in this proceedings.

A. Staff recommends that the Commission approve Staff's recommended rates and charges.

Staff further recommends that the Company be authorized an operating income of \$70,052 based on a 10 percent operating margin.

Staff further recommends that the Water Exploration Surcharge not be implemented at this time. Staff recommends bifurcating the exploration surcharge issue from the rate case as a separate phase of the same docket. In the event that Staff's recommendation regarding bifurcation is not accepted, Staff would not recommend the implementation of the surcharge.

Staff further recommends denial of the Company's request for approval to convert to long-term debt and equity an inter-company account payable owed to Brooke Utilities of \$533,599.

1 Staff further recommends the approval of a purchased water adjustor mechanism rate to be
2 implemented to recover the cost of hauling water via truck.

3
4 Staff further recommends denial of certain service charges and fines requested by the
5 Company.

6
7 **Q. Does this conclude your testimony?**

8 **A.** Yes, it does.

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Test Year Ended December 31, 2002

Schedule CMF-1

COMPUTATION OF INCREASE IN GROSS REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	\$ 680,033	\$ 633,958
2	Adjusted Operating Income (Loss)	\$ (132,725)	\$ 33,226
3	Current Rate of Return (L2 / L1)	-19.52%	5.24%
4	Required Rate of Return	10.9300%	11.0500%
5	Required Operating Income (L4 * L1)	\$ 74,328	\$ 70,052
6	Required Operating Margin (L5 / L11)	8.05%	10.00%
7	Operating Income Deficiency (L5 - L2)	\$ 207,053	\$ 36,826
8	Gross Revenue Conversion Factor	1.29930	1.26876
9	Increase In Gross Revenue (L7 * L6)	\$ 269,023	\$ 46,724
10	Adjusted Test Year Revenue	\$ 654,048	\$ 654,048
11	Proposed Annual Revenue (L8 + L9) Note A	\$ 923,071	\$ 700,772
12	Require Increase in Revenue (%) (L8/L9)	41.13%	7.14%

Line
No.

Calculation of Gross Revenue Conversion Factor:

1 Recommended Revenue Increase:		
2 Billings		1.000000
3 Combined Federal and State Income Tax Rate	20.92280%	
4 Uncollectible Rate After Income Taxes	0.26031%	
5 Total Tax Rate		21.18311%
6 Gross Revenue Conversion Factor		<u>1.268764</u>

Calculation of Effective Income Tax Rate:

7 Operating Income Before Taxes (Arizona Taxable Income)	100.00000%
8 Arizona State Income Tax Rate	6.96800%
9 Federal Taxable Income (L5 - L6)	93.03200%
10 Applicable Federal Income Tax Rate (Line 32)	15.00000%
11 Effective Federal Income Tax Rate (L7 x L8)	13.95480%
12 Combined Federal and State Income Tax Rate (L6 +L9)	<u>20.92280%</u>

Calculation of Uncollectible Rate After Income Taxes:

13 Uncollectible Rate	0.32918%
14 Combined Federal and State Income Tax Rate	20.92280%
15 1 minus Combined Federal and State Income Tax Rate	79.07720%
16 Uncollectible Rate After Income Taxes	<u>0.26031%</u>

Revenue Reconciliation:

17 Recommended Increase in Revenue (from REL-1, L8)	\$ 46,724
18 Uncollectible Rate	0.329180%
19 Required Increase in Revenue to Provide for Uncollectibles	\$ 154
20 Recommended Increase in Revenue (from REL-1,L8)	\$ 46,724
21 Required Increase in Revenue to Provide for Uncollectibles	154
22 Incremental Taxable Income	\$ 46,570
23 Combined Federal and State Income Tax Rate	20.92280%
24 Required Increase in Revenue to Provide for Income Taxes	9,744
25 Required Operating Income	\$ 70,052
26 Adjusted Test Year Operating Income (Loss)	33,226
27 Required Increase in Operating Income	36,826
28 Total Required Increase In Revenue	<u>\$ 46,724</u>

Calculation of Income Tax:

	Test Year	STAFF Recommended
29 Revenue	\$ 654,048	\$ 700,772
30 Less: Operating Expenses Excluding Income Taxes	\$ 618,958	\$ 619,112
31 Less: Synchronized Interest	\$ 26,182	\$ 26,182
32 Arizona Taxable Income	\$ 8,907	\$ 55,477
33 Arizona State Income Tax Rate	6.968%	6.968%
34 Arizona Income Tax	\$ 621	\$ 3,866
35 Federal Taxable Income	\$ 8,287	\$ 51,612
36 Federal Income Tax @ 15%	\$ 1,243	\$ 7,742
37 Combined Federal and State Income Tax	<u>\$ 1,864</u>	<u>\$ 11,607</u>
		\$ 9,744

Calculation of Interest Synchronization:

38 Rate Base	\$ 633,958
39 Weighted Average Cost of Debt	4.130%
40 Synchronized Interest	<u>\$ 26,182</u>

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 1,967,030	374,163	\$ 2,341,193
2	Less: Accumulated Depreciation	(1,228,209)	(29,448)	(1,257,657)
3	Net Plant in Service	<u>\$ 738,821</u>	<u>\$ 344,715</u>	<u>\$ 1,083,536</u>
<u>LESS:</u>				
4	Advances in Aid of Construction (AIAC)	(52,072)	-	(52,072)
5	Contributions in Aid of Construction (CIAC)	\$ (958,323)	\$ -	\$ (958,323)
6	Less: Accumulated Amortization	494,931	-	494,931
7	Net CIAC	<u>(463,392)</u>	<u>-</u>	<u>(463,392)</u>
8	Total Advances and Contributions	(515,464)	-	(515,464)
9	Customer Deposits	(21,356)	-	(21,356)
10	Meter Advances	-	-	-
11	Deferred Income Tax Assets	369,000	(369,000)	-
<u>ADD:</u>				
12	Working Capital	109,032	(21,790)	87,242
13		-	-	-
14		-	-	-
15	Total Rate Base	<u>\$ 680,033</u>	<u>\$ (46,075)</u>	<u>\$ 633,958</u>

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SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ No. 1	[C] ADJ No. 2	[D] ADJ No. 3	[E] ADJ No. 4	[F] ADJ No. 5	[M] STAFF ADJUSTED
<u>PLANT IN SERVICE:</u>								
1	Organization		\$ -	\$ -	\$ -	\$ -	\$ -	-
2	Franchises		-	-	-	-	-	-
3	Land and Land Rights	16,930	-	-	-	-	-	16,930
4	Structures and Improvements	160,067	-	-	-	-	-	160,067
5	Collecting Reservoirs		-	-	-	-	-	-
6	Wells and Springs	83,094	(17,100)	-	-	-	-	65,994
7	Infiltration Galleries and Tunnels		-	-	-	-	-	-
8	Supply Mains	479	-	-	-	-	-	479
9	Pumping Equipment	151,628	(20,335)	-	-	-	-	131,293
10	Water Treatment Equipment	5,320	-	-	-	-	-	5,320
11	Distribution Reservoirs	247,073	-	-	-	-	-	247,073
12	Transmission and Distribution Mains	998,291	441,598	-	-	-	-	1,439,889
13	Services	80,461	(30,000)	-	-	-	-	80,461
14	Meters	223,687	-	-	-	-	-	193,687
15	Hydrants		-	-	-	-	-	-
16	Other Plant and Miscellaneous		-	-	-	-	-	-
17	Miscellaneous Equipment		-	-	-	-	-	-
18	Other Tangible Plant		-	-	-	-	-	-
19			-	-	-	-	-	-
20	Total Plant in Service - Actual	1,967,030	374,163	-	-	-	-	2,341,193
21			-	(29,448)	-	-	-	(1,257,657)
22	Less: Accumulated Depreciation - Actual	\$ (1,228,209)	\$ -	\$ (29,448)	\$ -	\$ -	\$ -	\$ (1,257,657)
23	Total Accumulated Depreciation - Adjusted	\$ (1,228,209)	\$ -	\$ (29,448)	\$ -	\$ -	\$ -	\$ (1,257,657)
24			-	-	-	-	-	-
25	Plus: Construction Work In Progress		-	-	-	-	-	-
26	Net Plant in Service	\$ 738,821	\$ 374,163	\$ (29,448)	\$ -	\$ -	\$ -	\$ 1,083,536
27			-	-	-	-	-	-
28	LESS:							
29	Advances in Aid of Construction (AIAC)	\$ (52,072)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (52,072)
30			-	-	-	-	-	-
31	Contributions in Aid of Construction (CIAC)	(958,323)	-	-	-	-	-	(958,323)
32	Less: Accumulated Amortization	494,931	-	-	-	-	-	494,931
33	Net CIAC (L25 - L26)	(463,392)	-	-	-	-	-	(463,392)
34			-	-	-	-	-	-
35	Total Advances and Contributions	(515,464)	-	-	-	-	-	(515,464)
36			-	-	-	-	-	-
37	Customer Deposits	(21,356)	-	-	-	-	-	(21,356)
38	Meter Advances	-	-	-	-	-	-	-
39	Deferred Income Tax Assets	369,000	-	-	-	(369,000)	-	-
40			-	-	-	-	-	-
41	ADD:							
42	Working Capital Allowance	109,032	-	-	-	(21,790)	-	87,242
43	Projected Capital Expenditures	-	-	-	-	-	-	-
44	Deferred Debits	-	-	-	-	-	-	-
45	Other Additions	-	-	-	-	-	-	-
46	Total Rate Base	\$ 680,033	\$ 374,163	\$ (29,448)	\$ -	\$ (369,000)	\$ (21,790)	\$ 633,958

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Schedule CMF-5

RATE BASE ADJUSTMENT NO. 1 - PLANT IN SERVICE

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Land and Land Rights	\$	16,930	\$	-	\$	16,930
2	Structures and Improvements	\$	160,067	\$	-	\$	160,067
3	Wells and Springs	\$	83,094	\$	(17,100)	\$	65,994
4	Supply Mains	\$	479	\$	-	\$	479
5	Pumping Equipment	\$	151,628	\$	(20,335)	\$	131,293
6	Water Treatment Plants	\$	5,320	\$	-	\$	5,320
7	Storage Tanks	\$	247,073	\$	-	\$	247,073
8	Transmission and Distribution	\$	998,291	\$	441,598	\$	1,439,889
9	Services	\$	80,461	\$	-	\$	80,461
10	Meters and Meter Installations	\$	223,687	\$	(30,000)	\$	193,687
11	Adjustments to Test Year Plant	\$	1,967,030	\$	374,163	\$	2,341,193

Line 3 Wells and Springs - Staff removed post-test year plant
Line 5 Pumping Equipment - Staff removed post-test year plant
Line 8 Transmission and Distribution - Staff removed post-test year plant and added the Magnolia Project
Line 10 Meters and Meter Installations - Staff removed post-test year plant

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Schedule CMF-6

RATE BASE ADJUSTMENT NO. 2 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION			
		[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Accumulated Depreciation, Actual	<u>\$(1,228,209)</u>	<u>\$ (29,448)</u>	<u>\$ (1,257,657)</u>

Line 1 Accumulated Depreciation - Adjustment of \$29,448 reflects accumulated depreciation for the Magnolia Project, retroactive to 2000.

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Schedule CMF-7

RATE BASE ADJUSTMENT ADJUSTMENT NO. 3 - DEFERRED TAX ASSET

LINE NO.	DESCRIPTION	(A)	(B)	(C)
		COMPANY AS FILED	STAFF ADJUSTMENT	STAFF AS ADJUSTED
1	Deferred Tax Assets	\$ 369,000	\$ (369,000)	\$ -

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Schedule CMF- 8

RATE BASE ADJUSTMENT NO.4 - CASH WORKING CAPITAL

LINE NO.	DESCRIPTION	(A)	(B)	(C)
		COMPANY AS FILED	STAFF ADJUSTMENT	STAFF AS ADJUSTED
1	Cash Working Capital	\$ 109,032	\$ (21,790)	\$ 87,242

OPERATING INCOME - TEST YEAR AND STAFF PROPOSED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
REVENUES:						
1	Metered Water Revenue	\$ 645,612		\$ 645,612	\$ 46,724	\$ 692,336
2	Unmetered Water Revenue	-		-		-
3	Other Water Revenue	8,436		8,436		8,436
4	Total Operating Revenues	\$ 654,048	\$ -	\$ 654,048	\$ 46,724	\$ 700,772
EXPENSES:						
7	Salaries and Wages	\$ 125,296	-	\$ 125,296		\$ 125,296
8	Pension and Benefits	6,105	-	6,105		6,105
9	Purchased Water	64,262	(6,427)	57,835		57,835
10	Purchased Power	36,942	-	36,942		36,942
11	Chemicals	604	-	604		604
12	Materials and Supplies	42,923	(17,630)	25,293		25,293
13	Regulatory Water Testing	7,758	-	7,758		7,758
14	Contractual Services - Engineering	-	-	-		-
15	Contractual Services - Accounting	38,328	-	38,328		38,328
16	Contractual Services - Legal	66,430	-	66,430		66,430
17	Contractual Services - Other	19,368	-	19,368		19,368
18	Overhead Allocation - G and A	71,092	-	71,092		71,092
19	Rental of Equipment	-	-	-		-
20	Transportation Expenses	176,144	(174,645)	1,499		1,499
21	Workmen's Comp	2,271	-	2,271		2,271
22	Insurances Medical/Dental	12,663	-	12,663		12,663
23	Telephone	2,631	-	2,631		2,631
24	Dues and Subscriptions	299	-	299		299
25	Bad Debt Expense	2,153	-	2,153	154	2,307
26	Miscellaneous Expenses	202	-	202		202
27	Office Supplies	4,080	-	4,080		4,080
28	Licenses and Permits	1,000	-	1,000		1,000
29	Repairs and Maintenance - Building	-	-	-		-
30	R and M Vehicles	-	-	-		-
31	Sales tax Expenses	(380)	380	-		-
32	Utility Regulatory Assessment Fee	272	-	272		272
33	CAWCD Costs	21,501	-	21,501		21,501
34	Rate Case Expense	50,000	(16,667)	33,333		33,333
35	Depreciation Expense	35,496	6,847	42,343		42,343
36	Other Taxes and Licenses	45	-	45		45
37	Property Taxes	45,239	(5,624)	39,615	-	39,615
38	Income Tax	(45,951)	47,815	1,864	9,744	11,607
39						
40	Total Operating Expenses	\$ 786,773	\$ (165,951)	\$ 620,822	\$ 9,898	\$ 630,719
41						
42	Operating Income (Loss)	\$ (132,725)	\$ 165,951	\$ 33,226	\$ 36,826	\$ 70,052

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #4	[F] ADJ #5	[G] ADJ #6	[H] ADJ #7	[J] ADJ #8	[K] ADJ #9	[P] STAFF ADJUSTED
1	Metered Water Revenue	\$ 645,612										\$ 645,612
2	Unmetered Water Revenue	-										-
3	Other Water Revenue	8,436										8,436
4	Total Operating Revenues	\$ 654,048	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 654,048
5												
6	EXPENSES:											
7	Salaries and Wages	\$ 125,296										\$ 125,296
8	Pension and Benefits	6,105										6,105
9	Purchased Water	64,262	(6,427)									57,835
10	Purchased Power	36,942										36,942
11	Chemicals	604										604
12	Materials and Supplies	42,923		(17,630)								25,293
13	Regulatory Water Testing	7,758										7,758
14	Contractual Services - Engineering	-										-
15	Contractual Services - Accounting	38,328										38,328
16	Contractual Services - Legal	66,430										66,430
17	Contractual Services - Other	19,368										19,368
18	Overhead Allocation - G and A	71,092										71,092
19	Rental of Equipment	-										-
20	Transportation Expenses	176,144			(174,645)							1,499
21	Workmen's Comp	2,271										2,271
22	Insurance Medical/Dental	12,663										12,663
23	Telephone	2,631										2,631
24	Dues and Subscriptions	299										299
25	Bad Debt Expense	2,153										2,153
26	Miscellaneous Expenses	202										202
27	Office Supplies	4,080										4,080
28	Licenses and Permits	1,000										1,000
29	Repairs and Maintenance - Building	-										-
30	R and M Vehicles	-										-
31	Sales Tax Expenses	(380)				380						-
32	Utility Regulatory Assessment Fee	272										272
33	CAWCD Costs	21,501										21,501
34	Rate Case Expense	50,000					(16,667)					33,333
35	Depreciation Expense	35,496						6,847				42,343
36	Other Taxes and Licenses	45							(5,624)			45
37	Property Taxes	45,239										39,615
38	Income Tax	(45,951)								47,815		1,864
39												
40	Total Operating Expenses	\$ 786,773	\$ (6,427)	\$ (17,630)	\$ (174,645)	\$ 380	\$ (16,667)	\$ 6,847	\$ (5,624)	\$ 47,815	\$ -	\$ 620,822
41												
42	Operating Income (Loss)	\$ (132,725)	\$ 6,427	\$ 17,630	\$ 174,645	\$ (380)	\$ 16,667	\$ (6,847)	\$ 5,624	\$ (47,815)	\$ -	\$ 33,226

Pine Water Company
Docket No. W-03512A-03-0279
Test Year Ended December 31, 2002

Schedule CMF-11

OPERATING INCOME ADJUSTMENT NO. 1 - PURCHASED WATER EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Purchased Water	\$ 64,262	\$ (6,427)	\$ 57,835

Pine Water Company
Docket No. W-03512A-03-0279
Test Year Ended December 31, 2002

Schedule CMF- 12

OPERATING EXPENSE ADJUSTMENT NO. 2 - MATERIALS AND SUPPLIES

LINE NO.	DESCRIPTION	(A)	(B)	(C)
		COMPANY AS FILED	STAFF ADJUSTMENT	STAFF AS ADJUSTED
1	Materials and Supplies	\$ 42,923	\$ (17,630)	\$ 25,293

Pine Water Company
Docket No. W-03512A-03-0279
Test Year Ended December 31, 2002

Schedule CMF-13

OPERATING EXPENSE ADJUSTMENT NO. 3 - TRANSPORTATION EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Transportation Expense	\$ 176,144	\$ (174,645)	\$ 1,499

Pine Water Company
Docket No. W-03512A-03-0279
Test Year Ended December 31, 2002

Schedule CMF-14

OPERATING EXPENSE ADJUSTMENT NO. 4 - SALES TAX EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Sales Tax Expense	\$ (380)	\$ 380	\$ -

Pine Water Company
Docket No. W-03512A-03-0279
Test Year Ended December 31, 2002

Schedule CMF- 15

OPERATING EXPENSE ADJUSTMENT NO. 5 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	(A)	(B)	(C)
		COMPANY AS FILED	STAFF ADJUSTMENT	STAFF AS ADJUSTED
1	Rate Case Expense	\$ 50,000	\$ (16,667)	\$ 33,333

Pine Water Company
Docket No. W-03512A-03-0279
Test Year Ended December 31, 2002

Schedule CMF-16

OPERATING EXPENSE ADJUSTMENT NO. 6 - DEPRECIATION EXPENSE INCL. CIAC AMORTIZATION

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENT		STAFF AS ADJUSTED	
1	Depreciation Expense	\$	70,375	\$	6,847	\$	77,222
2	CIAC Amortization		(34,879)		-		(34,879)
		\$	35,496	\$	6,847	\$	42,343

Pine Water Company
Docket No. W-03512A-032-0279
Test Year Ended December 31, 2002

Schedule CMF- 17

OPERATING INCOME ADJUSTMENT NO. 7 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTMENT
1	2000 Annaul Gross Revenues			\$ 599,608
2	2001 Annaul Gross Revenues			\$ 655,846
3	2002 Annaul Gross Revenues			\$ 628,705
4	Plus Staff's Recommended Increase			\$ 46,724
5	Subtotal (Lines 1 + 2 + 3 + 4)			\$ 1,930,883
6	Three Year Average Calculation			3
7	Three Year Average (Line 5 / Line 6)			\$ 643,628
8	Department of Revenue Multiplier			2
9	Revenue Base Value (Line 7 x Line 8)			\$ 1,287,255
10	Plus: 10% of 2001 CWIP			
11	Less: Net Book Vaule of Leased Vehicles			\$
12	Full Cash Value (Line 9 + Line 10 - Line 11)			\$ 1,287,255
13	Assessment Ratio			0.25
14	Assessed Value (Line 12 x Line 13)			\$ 321,814
15	Composit Property Tax Rate (See Note B Below)			0.123100
16	Staff Proposed Property Tax Expense (Line 14 x Line 15)	\$ 45,239	\$ (5,624)	\$ 39,615

References:

Column A: Company Schedule

Column B: Testimony

Column C, Line 16: Column (A) + Column (B)

Pine Water Company
Docket No. W-03512A-03-0279
Test Year Ended December 31, 2002

Schedule CMF- 18

OPERATING INCOME ADJUSTMENT NO 8 - INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A)	(B)	(C)
		COMPANY AS FILED	STAFF ADJUSTMENT	STAFF AS ADJUSTED
1	Federal and State Income Taxes	\$ (45,951)	\$ 47,815	\$ 1,864

RATE DESIGN

Rate Code 14A

Monthly Usage Charge: Residential/Commercial

5/8" x 3/4" Meter
3/4" Meter
1" Meter
1 1/2" Meter
2" Meter
3" Meter
4" Meter
6" Meter
8" Meter

Present Rates	Minimum Monthly Usage Charge			
	Company Proposed		Staff Proposed	
	Winter	Summer	Winter	Summer
\$ 18.45	\$ 22.14	\$ 22.14	\$ 18.45	\$ 18.45
\$ 21.22	\$ 33.21	\$ 33.21	\$ 21.22	\$ 21.22
\$ 24.54	\$ 55.35	\$ 55.35	\$ 24.54	\$ 24.54
\$ 36.90	\$ 110.74	\$ 110.74	\$ 36.90	\$ 36.90
\$ 64.58	\$ 177.12	\$ 177.12	\$ 64.58	\$ 64.58
\$ 92.25	\$ 354.24	\$ 354.24	\$ 92.25	\$ 92.25
\$ 147.60	\$ 553.50	\$ 553.50	\$ 147.60	\$ 147.60
\$ -	\$ 1,107.00	\$ 1,107.00	\$ 250.00	\$ 250.00
\$ -	\$ 2,214.00	\$ 2,214.00	\$ 400.00	\$ 400.00

Rate Code 14B

Monthly Usage Charge: Residential/Commercial

5/8" x 3/4" Meter
3/4" Meter
1" Meter
1 1/2" Meter
2" Meter
3" Meter
4" Meter
6" Meter
8" Meter

20.35	22.14	22.14	\$ 18.45	\$ 18.45
30.53	33.21	33.21	\$ 21.22	\$ 21.22
50.88	55.35	55.35	\$ 24.54	\$ 24.54
101.75	110.70	110.70	\$ 36.90	\$ 36.90
162.80	177.12	177.12	\$ 64.58	\$ 64.58
305.25	354.24	354.24	\$ 92.25	\$ 92.25
508.75	553.50	553.50	\$ 147.60	\$ 147.60
1,017.50	1,107.00	1,107.00	\$ 250.00	\$ 250.00
-	2,214.00	2,214.00	\$ 400.00	\$ 400.00

Gallons Included In Minimum Charge:

All Meters	-	-	-	-	-
Fire Hydrants Used For Construction Water	-	-	-	-	-

**RATE DESIGN
CONTINUED**

Rate Code 14A

Residential/Commercial - Per 1,000 Gallons

Present Rates	Commodity Rates			
	Company Proposed		Staff Proposed	
	Winter	Summer	Winter	Summer

Tier 1:

5/8 x 3/4 Inch Meter	0 to 4,000 Gallons	\$	3.40	\$	-	\$	-	\$	-	\$	-
5/8 x 3/4 Inch Meter	0 to 2,000 Gallons	\$	-	\$	4.28	\$	5.80	\$	3.50	\$	5.30
1 Inch and Larger	0 to 4,000 Gallons	\$	3.40	\$	-	\$	-	\$	-	\$	-
1 Inch and Larger	0 to 2,000 Gallons	\$	-	\$	-	\$	-	\$	3.50	\$	5.30
1 Inch and Larger	0 to 10,000 Gallons	\$	-	\$	4.28	\$	5.80	\$	-	\$	-

Tier 2:

5/8 x 3/4 Inch Meter	Over 4,000 Gallons	\$	5.95	\$	-	\$	-	\$	-	\$	-
5/8 x 3/4 Inch Meter	2,001 to 6,000 Gallons	\$	-	\$	-	\$	-	\$	4.45	\$	6.30
5/8 x 3/4 Inch Meter	4001 to 8,000 Gallons	\$	-	\$	7.50	\$	10.14	\$	-	\$	-
1 Inch and Larger	Over 4,000 Gallons	\$	5.95	\$	-	\$	-	\$	-	\$	-
1 Inch and Larger	2,001 to 6,000 Gallons	\$	-	\$	-	\$	-	\$	4.45	\$	6.30
1 Inch and Larger	10,001 to 25,000 Gallons	\$	-	\$	7.50	\$	10.14	\$	-	\$	-

Tier 3:

5/8 x 3/4 Inch Meter	Over 4,000 Gallons	\$	5.95	\$	-	\$	-	\$	-	\$	-
5/8 x 3/4 Inch Meter	In excess of 6,000 Gallons	\$	-	\$	-	\$	-	\$	5.60	\$	7.35
5/8 x 3/4 Inch Meter	Over 8,000 Gallons	\$	-	\$	11.50	\$	14.14	\$	-	\$	-
1 Inch and Larger	Over 4,000 Gallons	\$	5.95	\$	-	\$	-	\$	-	\$	-
1 Inch and Larger	In excess of 6,000 Gallons	\$	-	\$	-	\$	-	\$	5.60	\$	7.35
1 Inch and Larger	Over 25,000 Gallons	\$	-	\$	11.50	\$	14.14	\$	-	\$	-

**RATE DESIGN
CONTINUED**

Rate Code 14B

Commodity Rates

Residential/Commercial - Per 1,000 Gallons

Present Rates	Commodity Rates			
	Company Proposed		Staff Proposed	
	Winter	Summer	Winter	Summer

Tier 1:

5/8 x 3/4 Inch Meter	All Gallons	\$ 3.40	\$ -	\$ -	\$ -	\$ -
5/8 x 3/4 Inch Meter	0 to 2,000 Gallons	\$ -	\$ 4.28	\$ 5.80	\$ 3.50	\$ 5.30
1 Inch and Larger	All Gallons	\$ 3.40	\$ -	\$ -	\$ -	\$ -
1 Inch and Larger	0 to 2,000 Gallons	\$ -	\$ -	\$ -	\$ 3.50	\$ 5.30
1 Inch and Larger	0 to 10,000 Gallons	\$ -	\$ 4.28	\$ 5.80	\$ -	\$ -

Tier 2:

5/8 x 3/4 Inch Meter	All Gallons	\$ 5.95	\$ -	\$ -	\$ -	\$ -
5/8 x 3/4 Inch Meter	2,001 to 6,000 Gallons	\$ -	\$ -	\$ -	\$ 4.45	\$ 6.30
5/8 x 3/4 Inch Meter	2001 to 8,000 Gallons	\$ -	\$ 7.50	\$ 10.14	\$ -	\$ -
1 Inch and Larger	All Gallons	\$ 5.95	\$ -	\$ -	\$ -	\$ -
1 Inch and Larger	2,001 to 6,000 Gallons	\$ -	\$ -	\$ -	\$ 4.45	\$ 6.30
1 Inch and Larger	10,001 to 25,000 Gallons	\$ -	\$ 7.50	\$ 10.14	\$ -	\$ -

Tier 3:

5/8 x 3/4 Inch Meter	All Gallons	\$ 5.95	\$ -	\$ -	\$ -	\$ -
5/8 x 3/4 Inch Meter	In excess of 6,000 Gallons	\$ -	\$ -	\$ -	\$ 5.60	\$ 7.35
5/8 x 3/4 Inch Meter	Over 25,000 Gallons	\$ -	\$ 11.50	\$ 14.14	\$ -	\$ -
1 Inch and Larger	All Gallons	\$ 5.95	\$ -	\$ -	\$ -	\$ -
1 Inch and Larger	In excess of 6,000 Gallons	\$ -	\$ -	\$ -	\$ 5.60	\$ 7.35
1 Inch and Larger	Over 25,000 Gallons	\$ -	\$ 11.50	\$ 14.14	\$ -	\$ -

**RATE DESIGN
CONTINUED**

	Rate Code			
	Sheet A Present Charges	Sheet B Present Charges	Company Proposed Charges (*)	Staff Proposed Charges
Service Line and Meter Installation Charge:				
5/8" x 3/4" Meter	\$ 430	\$ 430	\$ 430	\$ 430
3/4 Inch" Meter	\$ 480	\$ 480	\$ 480	\$ 480
1" Meter	\$ 550	\$ 550	\$ 550	\$ 550
1.5" Meter	\$ 775	\$ 775	\$ 775	\$ 775
2" Meter	\$ 1,305	\$ 1,305	\$ 1,305	\$ 1,305
3" Meter	\$ 1,815	\$ 1,815	\$ 1,815	\$ 1,815
4" Meter	\$ 2,860	\$ 2,860	\$ 2,860	\$ 2,860
6" Meter	N/A	\$ 5,275	\$ 5,275	\$ 5,275
8" Meter	Cost	Cost	Cost	Cost
Meters Larger than 8"	Cost	Cost	Cost	Cost

(*) For Compound Meters
Plus Actual Cost of Road Crossing Costs
As meters and service lines are now taxable income for income purposes, it shall
be the at the discretion of the utility whether to collect income taxes on the meter and
service line charges.
Any tax collected will be refunded each year that the meter deposit is refunded.

Water Exploration Surcharge, per month	\$ -	0	\$ 10.00	0
Water Hauling Surcharge (1)	Cost	Cost	Cost	Cost

(1) Per gallon rate calculated by dividing actual hauling costs less curtailment penalty fees collected
by the total gallons sold for the month.
Customer bill amount will be calculated by multiplying the gallons used for the month times
the per gallon rate. Customers will be billed in the month following actual costs incurred.

Rate Code			
Sheet A	Sheet B	Company	Staff
Present	Present	Proposed	Proposed
Charges	Charges	Charges (*)	Charges

Other Service Charges:

Establishment	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	\$ 35.00	\$ 35.00	\$ 35.00	\$ 35.00
Reconnection (Delinquent)	\$ 20.00	\$ 35.00	\$ 50.00	\$ 35.00
Reconnection (After Hours)	\$ 30.00	\$ 45.00	\$ 45.00	\$ 45.00
Meter Test	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Deposit	**	**		
Deposit Interest	6.00%	6.00%	6.00%	6.00%
Re-Establishment (With-in 12 months)	***	***	***	***
NSF Check	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00
Deferred Payment, Per Month (b)	\$ -	\$ -	\$ -	1.50%
Meter Re-Read	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00
Charge of Moving Customer Meter-Customer Requested	Cost	Cost	Cost	Cost
Late Payment Charge, greater of 1.50% or (1)	\$ 5.00	\$ 5.00	\$ 10.00	1.50%
Cut Lock Fee	\$ -	\$ -	\$ 50.00	\$ -
Meter Removal Fee	\$ -	\$ -	\$ 150.00	\$ -
Illegal Supply Fee				
First Offence			\$ 500.00	0
Second Offence			\$ 1,000.00	0
Third Offence			\$ 2,000.00	0
Water Theft Fee				
First Offence			\$ 250.00	0
Second Offence			\$ 500.00	0
Third Offence			\$ 750.00	0
Emergency Conservation Response Fee			\$ 100.00	0
Cross Connection Exposure Fee			\$ 100.00	0
Damages to Meter Locks, Valves, Seals (2)	Cost	Cost	\$ 40.00	Cost
Sprinklers			(a)	(a)

(1) Greater of 1.50% or \$5.00 Present Rates or 1.5% or \$10 Proposed Rates.

(2) \$40.00 plus actual cost of making repairs.

** PER COMMISSION RULES (R14-2-403.B)

*** MONTHS OFF SYSTEM TIMES MINIMUM (R14-2-403.D)

IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE TAX, PER COMMISSION RULE (14-2-409.D 5).

ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS, AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES.

(a) 1.50% of the monthly minimum for a comparable sized meter connection, but no less than \$5.00 per month.

(b) 1.50% of the outstanding balance.

TYPICAL BILL ANALYSIS

General Service 5/8 X 3/4 - Inch Meter - 14A Winter

Average Number of Customers: 1,497

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	397	\$19.80	\$23.84	\$4.04	20.4%
Median Usage	329	\$19.57	\$23.55	\$3.98	20.3%
<u>Staff Proposed</u>					
Average Usage	397	\$19.80	\$19.84	\$0.04	0.2%
Median Usage	329	\$19.57	\$19.60	\$0.03	0.2%

Present & Proposed Rates (Without Taxes) **General Service 5/8 X 3/4 - Inch Meter - 14A Winter**

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
-	\$ 18.45	\$ 22.14	20.0%	\$ 18.45	0.0%
1,000	21.85	26.42	20.9%	21.95	0.5%
2,000	25.25	30.70	21.6%	25.45	0.8%
3,000	28.65	38.20	33.3%	29.90	4.4%
4,000	32.05	45.70	42.6%	34.35	7.2%
5,000	38.00	53.20	40.0%	38.80	2.1%
6,000	43.95	60.70	38.1%	43.25	-1.6%
7,000	49.90	68.20	36.7%	48.85	-2.1%
8,000	55.85	75.70	35.5%	54.45	-2.5%
9,000	61.80	87.20	41.1%	60.05	-2.8%
10,000	67.75	98.70	45.7%	65.65	-3.1%
15,000	97.50	156.20	60.2%	93.65	-3.9%
20,000	127.25	213.70	67.9%	121.65	-4.4%
25,000	157.00	271.20	72.7%	149.65	-4.7%
50,000	305.75	558.70	82.7%	289.65	-5.3%
75,000	454.50	846.20	86.2%	429.65	-5.5%
100,000	603.25	1,133.70	87.9%	569.65	-5.6%

TYPICAL BILL ANALYSIS

General Service 5/8 X 3/4 - Inch Meter - 14A Summer

Average Number of Customers: 1,510

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	491	\$20.12	\$24.99	\$4.87	24.2%
Median Usage	433	\$19.92	\$24.65	\$4.73	23.7%
<u>Staff Proposed</u>					
Average Usage	491	\$20.12	\$21.05	\$0.93	4.6%
Median Usage	433	\$19.92	\$20.75	\$0.82	4.1%

Present & Proposed Rates (Without Taxes) General Service 5/8 X 3/4 - Inch Meter - 14A Summer

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
-	\$ 18.45	\$ 22.14	20.0%	\$ 18.45	0.0%
1,000	21.85	27.94	27.9%	23.75	8.7%
2,000	25.25	33.74	33.6%	29.05	15.0%
3,000	28.65	43.88	53.2%	35.35	23.4%
4,000	32.05	54.02	68.5%	41.65	30.0%
5,000	38.00	64.16	68.8%	47.95	26.2%
6,000	43.95	74.30	69.1%	54.25	23.4%
7,000	49.90	84.44	69.2%	61.60	23.4%
8,000	55.85	94.58	69.3%	68.95	23.5%
9,000	61.80	108.72	75.9%	76.30	23.5%
10,000	67.75	122.86	81.3%	83.65	23.5%
15,000	97.50	193.56	98.5%	120.40	23.5%
20,000	127.25	264.26	107.7%	157.15	23.5%
25,000	157.00	334.96	113.4%	193.90	23.5%
50,000	305.75	688.46	125.2%	377.65	23.5%
75,000	454.50	1,041.96	129.3%	561.40	23.5%
100,000	603.25	1,395.46	131.3%	745.15	23.5%

TYPICAL BILL ANALYSIS

General Service 5/8 X 3/4 - Inch Meter - 14B Winter

Average Number of Customers: 360

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	437	\$21.84	\$24.01	\$2.17	10.0%
Median Usage	398	\$21.70	\$23.84	\$2.14	9.9%
<u>Staff Proposed</u>					
Average Usage	437	\$21.84	\$19.98	(\$1.86)	-8.5%
Median Usage	398	\$21.70	\$19.84	(\$1.86)	-8.6%

Present & Proposed Rates (Without Taxes) General Service 5/8 X 3/4 - Inch Meter - 14B Winter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
-	\$ 20.35	\$ 22.14	8.8%	\$ 18.45	-9.3%
1,000	23.75	26.42	11.2%	21.95	-7.6%
2,000	27.15	30.70	13.1%	25.45	-6.3%
3,000	30.55	38.20	25.0%	29.90	-2.1%
4,000	33.95	45.70	34.6%	34.35	1.2%
5,000	39.90	53.20	33.3%	38.80	-2.8%
6,000	45.85	60.70	32.4%	43.25	-5.7%
7,000	51.80	68.20	31.7%	48.85	-5.7%
8,000	57.75	75.70	31.1%	54.45	-5.7%
9,000	63.70	87.20	36.9%	60.05	-5.7%
10,000	69.65	98.70	41.7%	65.65	-5.7%
15,000	99.40	156.20	57.1%	93.65	-5.8%
20,000	129.15	213.70	65.5%	121.65	-5.8%
25,000	158.90	271.20	70.7%	149.65	-5.8%
50,000	307.65	558.70	81.6%	289.65	-5.9%
75,000	456.40	846.20	85.4%	429.65	-5.9%
100,000	605.15	1,133.70	87.3%	569.65	-5.9%

TYPICAL BILL ANALYSIS

General Service 5/8 X 3/4 - Inch Meter - 14B Summer

Average Number of Customers: 257

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	501	\$22.05	\$25.04	\$2.99	13.6%
Median Usage	448	\$21.87	\$24.74	\$2.87	13.1%
<u>Staff Proposed</u>					
Average Usage	501	\$22.05	\$21.10	(\$0.95)	-4.3%
Median Usage	448	\$21.87	\$20.82	(\$1.05)	-4.8%

Present & Proposed Rates (Without Taxes) General Service 5/8 X 3/4 - Inch Meter - 14B Summer

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
-	\$ 20.35	\$ 22.14	8.8%	\$ 18.45	-9.3%
1,000	23.75	27.94	17.6%	23.75	0.0%
2,000	27.15	33.74	24.3%	29.05	7.0%
3,000	30.55	43.88	43.6%	35.35	15.7%
4,000	33.95	54.02	59.1%	41.65	22.7%
5,000	39.90	64.16	60.8%	47.95	20.2%
6,000	45.85	74.30	62.1%	54.25	18.3%
7,000	51.80	84.44	63.0%	61.60	18.9%
8,000	57.75	94.58	63.8%	68.95	19.4%
9,000	63.70	104.72	64.4%	76.30	19.8%
10,000	69.65	114.86	64.9%	83.65	20.1%
15,000	99.40	185.56	86.7%	120.40	21.1%
20,000	129.15	256.26	98.4%	157.15	21.7%
25,000	158.90	326.96	105.8%	193.90	22.0%
50,000	307.65	680.46	121.2%	377.65	22.8%
75,000	456.40	1,033.96	126.5%	561.40	23.0%
100,000	605.15	1,387.46	129.3%	745.15	23.1%

SCOTT, JR.

BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER

Chairman

WILLIAM A. MUNDELL

Commissioner

JEFF HATCH-MILLER

Commissioner

MIKE GLEASON

Commissioner

KRISTIN K. MAYES

Commissioner

IN THE MATTER OF THE APPLICATION OF)
PINE WATER COMPANY FOR A)
DETERMINATION OF THE CURRENT FAIR)
VALUE OF ITS UTILITY PLANT AND)
PROPERTY, A RATE INCREASE AND FOR)
APPROVAL TO INCUR LONG-TERM DEBT)

DOCKET NO. W-03512A-03-0279

DIRECT TESTIMONY

OF

MARLIN SCOTT, JR.

UTILITIES ENGINEER

UTILITIES DIVISION

OCTOBER 15, 2003

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**EXECUTIVE SUMMARY
PINE WATER COMPANY
DOCKET NO. W-03512A-03-0279**

CONCLUSIONS

- A. Pine Water Company ("Company") has a non-account water loss of 7.3% which is within acceptable limits. (For details see §C of Exhibit MSJ.)
- B. The Company's water system does not have its own adequate well source production. However, the Company supplements its source capacity with purchased and hauled water. (For details see §D of Exhibit MSJ.)
- C. The Company currently has a moratorium in effect that limits new service connections to 25 per month and new main extensions if the party requesting the new main provides its own new water source. (For details see §E of Exhibit MSJ.)
- D. The Arizona Department of Environmental Quality has determined that the Company's water systems, PWS #04-034 and PWS #04-043, have no major deficiencies and are currently delivering water that meets water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4. (For details see §G of Exhibit MSJ.)
- E. The Company is not located in any Active Management Area and is not subject to any AMA reporting and conservation requirements. (For details see §H of Exhibit MSJ.)
- F. The Company has no outstanding Arizona Corporation Commission compliance issues. (For details see §I of Exhibit MSJ.)
- G. All of the Company sources indicate the arsenic concentrations are well within the new MCL standard. (For details see §M of Exhibit MSJ.)

RECOMMENDATIONS

- 1. Staff recommends that the Company continue to use Staff's depreciation rates by individual National Association of Regulatory Utility Commissioners category. (For details see §J and Table J-1 of Exhibit MSJ.)
- 2. Staff recommends against acceptance of the four post-test year plant items. (For details see §K of Exhibit MSJ.)
- 3. Staff recommends the acceptance of the Company's water testing expense of \$7,758. (For details please see §L of Exhibit MSJ.)
- 4. Staff recommends the acceptance of the Company's proposed service line and meter installation charges. Staff further recommends that the actual cost be applied when crossing a paved road. (For details see §N and Table N-1 of Exhibit MSJ.)

1 **INTRODUCTION**

2 **Q. Please state your name, place of employment and job title.**

3 A. My name is Marlin Scott, Jr. My place of employment is the Arizona Corporation
4 Commission ("Commission"), Utilities Division, 1200 West Washington Street, Phoenix,
5 Arizona 85007. My job title is Utilities Engineer.

6
7 **Q. How long have you been employed by the Commission?**

8 A. I have been employed by the Commission since November 1987.

9
10 **Q. Please list your duties and responsibilities.**

11 A. As a Utilities Engineer, specializing in water and wastewater engineering, my
12 responsibilities include: the inspection, investigation, and evaluation of water and
13 wastewater systems; obtaining data, prepare reconstruction cost new and/or original cost
14 studies, cost of service studies and investigative reports; providing technical
15 recommendations and suggesting corrective action for water and wastewater systems; and
16 providing written and oral testimony on rate applications and other cases before the
17 Commission.

18
19 **Q. How many companies have you analyzed for the Utilities Division?**

20 A. I have analyzed approximately 355 companies in various areas for the Utilities Division.

21
22 **Q. Have you previously testified before this Commission?**

23 A. Yes, I have testified in 39 proceedings before this Commission.

24
25
26

1 **Q. What is your educational background?**

2 A. I graduated from Northern Arizona University in 1984 with a Bachelor of Science degree
3 in Civil Engineering Technology.

4
5 **Q. Briefly describe your pertinent work experience.**

6 A. Prior to my employment with the Commission, I was Assistant Engineer for the City of
7 Winslow, Arizona, for about two years. Prior to that, I was a Civil Engineering
8 Technician with the U.S. Public Health Service in Winslow for approximately six years.

9
10 **Q. Please state your professional membership, registrations, and licenses.**

11 A. I am a member of the National Association of Regulatory Utility Commissioners
12 ("NARUC") Staff Subcommittee on Water.

13
14 **PURPOSE OF TESTIMONY**

15 **Q. Were you assigned to provide an engineering analysis and recommendation for the**
16 **Pine Water Company ("Company") in this proceeding?**

17 A. Yes. I reviewed the Company's application and responses to data requests, and I visited
18 the water system during August 2003. This testimony and its attachment will present the
19 findings of my engineering evaluation.

20
21 **ENGINEERING REPORT**

22 **Q. Please describe your attached Engineering Report, Exhibit MSJ.**

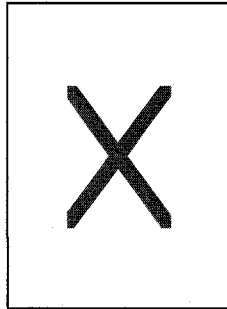
23 A. Exhibit MSJ presents the details and analyses of my findings, and is attached to this direct
24 testimony. Exhibit MSJ contains the following major topics: (1) a description of the
25 water system and the processes, (2) water use, (3) source and storage capacities, (4)
26 moratoriums, (5) growth, (6) compliance with the rules of the Arizona Department of

1 Environmental Quality, Arizona Department of Water Resources, and the Arizona
2 Corporation Commission, (7) depreciation rates, (8) post-test year improvements, (9)
3 water testing expense, (10) arsenic, and (11) service line and meter installation charges.
4

5 My conclusions and recommendations from the engineering report are contained in the
6 "EXECUTIVE SUMMARY", above.
7

8 **Q. Does this conclude your direct testimony?**

9 **A. Yes, it does.**



**Engineering Report
For
Pine Water Company
Docket No. W-03512A-03-0279
(Rates)**

October 2, 2003

A. LOCATION OF COMPANY

The Company serves the community of Pine which is located approximately 15 miles northwest of Payson, in Gila County. Figure A-1 shows the location of the Company within Gila County and Figure A-2 shows the approximate 3-1/4 square-miles of certificated area.

B. DESCRIPTION OF WATER SYSTEM

The water system was field inspected on August 13, 2003, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Shawn Stouder, Water Distribution Operator for the Company.

The operation of the water system consists of 19 wells, 10 storage tanks, 14 booster stations and a distribution system serving 1,887 customers during the test year of 2002. A system schematic of this process is shown in Figure B-1. A detailed plant facility listing follows:

Table 1. Well Data

Well Name	ADWR ID No.	Pump HP	Pump GPM	Casing Size & Depth	Meter Size
PWC #1	55-613695	0.75	10	6" x 200'	1"
PWC #2	55-613688	0.5	8.5	6" x 170'	3/4"
PWC #3	55-613691	0.5	3	8" x 140'	3/4"
PWC #4	55-613689	0.75	10	6" x 240'	1"
Ben	55-519445	0.5	♠ 0	6" x 152'	1"
Canyon Tanks	55-613696	0.75	3	6" x 200'	1"
PI -1	55-603958	3	18	6" x 233'	1"
PII - 2	55-603961	3	7.5	8" x 280'	1"
PIII - 3	55-603963	5	23	8" x 480'	2"
Canyon Shad.	55-603960	1	♠ 0	4" x 300'	3/4"

SH -1	55-635775	2	5	6" x 280'	3/4"
SH -2	55-635769	1	♠ 0	8" x 252'	3/4"
SH -3	55-635770	2	16	6" x 260'	3/4"
SH -4	55-635772	2	♠ 0	6" x 200'	3/4"
Pine Crest	55-613687	0.75	♠ 0	6" x 200'	1"
♥ Weeks	55-565901	2	13	6" x 200'	2"
♥ Bloom	55-571532	2	12	6" x 200'	2"
♥ STWID #1	55-542283	2	24	6" x 200'	2"
♥ STWID #2	55-547869	2	4	6" x 400'	3/4"
		TOTAL:	157 GPM		

♥ Note: Wells not owned by the Company.

♠ Note: Wells depleted below pump setting in 2002/2003; awaiting well recovery.

Table 2. Storage Tanks

Capacity (Gallons)	Quantity (Each)	Location
10,000	2	Pine Ranch 1
15,000	1	Pine Ranch 1
100,000	2	Canyon Tanks
100,000	1	Portals II tank site
100,000	1	Brookview
100,000	1	Water Tank Road
150,000	1	Portals III tank site
300,000	1	S. Hollow Well #2
Totals: 985,000 gallons	10	

Table 3. Booster Systems

Location	Plant Facilities	Comments
@ Portals III Tank Site	3-Hp Booster pump	Included in Table 2:
	1,000 gal. Pressure tank	150,000 gal. storage tank
	10' x 12' Building	
@ Portals II T.S.	5-Hp Booster pump	Included in Table 2:
	5,000 gal. Pressure tank	100,000 gal. storage tank
	24' x 28' Building	

@ Portals II B.S.	3-Hp Booster pump	
	210 gal. Pressure tank	
	10' x 14' Building	
@ Brookview T.S.	100,000 gal. storage tank	Included in Table 2
	3,000 gal. pressure tank	
@ Pine Inter-tie	Normal flow to south: 2" - PRV	Inter-tie between
	S to N: Two 7-1/2-Hp booster pumps	North/South Pine
	Vault	
In Pine -- Project	6-inch master-meter	Included in Table 2:
Magnolia @ SH Well 2	6-inch sustaining valve	300,000 gal. storage tank
	15-Hp Turbine booster pump	(Project Magnolia not
	10' x 15' CMU Building	owned by Company.)
In Strawberry-- Project	No meter (in Pine)	(Project Magnolia not
Magnolia	Two 15-Hp booster pumps	owned by Company.)
@ Water Tank Road	100,000 gal. storage tank	Include in Table 2
	10-Hp booster pump	
	8' x 10' wooden bldg.	
@ S. Mtn. Shadows 1	Two 5-Hp booster pumps	
	2,000 gal. pressure tank	
	5' x 6' bldg.	
@ S. Mtn. Shadows 2	5-Hp booster pump	
	1,000 gal. pressure tank	
	8' x 10' bldg.	
@ Pine Ranch 1	Two 10,000 gal. storage tanks	Include in Table 2
	15,000 gal. storage tank	Include in Table 2
	7-1/2-Hp booster pump	
	2,000 gal. pressure tank	
@ Pine Ranch 2	5-Hp booster pump	
	1,000 gal. pressure tank	
	8' x 16' bldg.	
@ White Oak Glen	5-Hp booster pump	
	2,000 gal. pressure tank	

	10' x 24' bldg.	
@ Pine Mtn. Acres	5-Hp booster pump	
	30 gal. bladder tank	
	vault	

Table 4. Water Mains

Diameter	Material	Length
2-inch	ABS	15,030 ft.
3-inch	ABS	14,290 ft.
3-inch	PVC	56,438 ft.
4-inch	ABS	25,000 ft.
4-inch	PVC	42,480 ft.
4-inch	AC	25,000 ft.
6-inch	AC	3,000 ft.
6-inch	PVC	56,438 ft.
	Total:	237,676 ft.

Table 5. Customer Meters

Size	Quantity
5/8 x 3/4-inch	1,879
3/4-inch	-
1- inch	6
1-1/2-inch	-
2-inch	2
3-inch	-
Total:	1,887

Table 6. Fire Hydrants

Size	Quantity
Standard	11
	(In Hidden Pines)

Table 7. Other Water Sources

Description	Gallons Purchased
Strawberry-Pine Pipeline (Magnolia)	11,643,000 gallons
Hauled by Pearson Transportation	753,000 gallons

C. WATER USE

Water Sold

Based on the information provided by the Company, water use for the year 2002 is presented in Figure C-1. Customer consumption experienced a high monthly average water use of 117 gallons per day ("GPD") per connection and a low monthly average water use of 53 GPD per connection for an average annual use of 77 GPD per connection. During this period, the Company also implemented its curtailment plan and had water use curtailment in effect for its customers.

Non-Account Water

The Company reported 56,107,000 gallons pumped/purchased and 52,006,014 gallons sold, resulting in a water loss of 7.3%. This 7.3% is acceptable to Staff.

D. SOURCE AND STORAGE CAPACITIES

The water system currently has well capacity of 157 GPM and storage capacity of 985,000 gallons. Based on the Company's Water Use Data Sheet, the calculated high monthly average water use of 117 GPD per connection is extremely low. Even if this 117 GPD per connection is multiplied by a 2.0 factor, the equated result of 234 GPD/connection is still conservative. Calculating the actual peak day water use for this system is difficult when curtailments and moratoriums are in effect. When considering the above two water usages, this system did not have even nearly enough well capacity to serve the test year customer base of 1,887 connections.

Due to the insufficient well production, the Company transported 11,643,000 gallons of water using Project Magnolia and another 753,000 gallons of water hauled to supplement the source capacity during the test year.

E. COMMISSION MORATORIUMS

The community of Pine has had some type of moratorium in effect since July of 1989 (the initial moratoriums only dealt with that portion of Pine formally known as E&R Water Company, Inc.). These moratoriums, sometimes included in curtailment orders, limited new

meter installations and did not allow any new main extensions to be constructed. New meter installations were not allowed at all in the initial moratorium. In subsequent Commission orders, new meter installations were limited to one meter per month and modified to 25 new meter installations per month.

The current moratorium in effect was granted by Decision No. 64400 (January 29, 2002), which was modified by Decision No. 65435 (December 9, 2003) to apply to the Company's current water operation for PWS #04-034 and PWS #04-043. These Decisions allow the Company to install up to 25 new service connections per month and new main extensions if the party requesting the new main provides its own new water source.

F. GROWTH

Figure F-1 depicts the customer growth using linear regression analysis using data from December 1998 to August 2003 and projects an estimate of growth in the next five years. The number of service connections was obtained from annual reports along with data request information. During the test year 2002, the Company had 1,887 customers and it is projected that the Company could have approximately 2,160 customers by December 2007. The data used in this analysis reflects growth during periods when moratoriums were in effect. Therefore, actual growth could be much greater if the Commission continues to allow 25 new service connections per month.

G. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

ADEQ reported that the Company's South Pine System, PWS #04-034, and North Pine System, PWS #04-043, have no major deficiencies and that both water systems are currently delivering water that meets water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4.

H. ARIZONA DEPARTMENT OF WATER RESOURCES COMPLIANCE

The Company is not located in any Active Management Area ("AMA") and is not subject to any AMA reporting and conservation requirements.

I. ARIZONA CORPORATION COMMISSION COMPLIANCE

According to the Utilities Division Compliance Unit, the Company has no outstanding Arizona Corporation Commission compliance issues.

J. DEPRECIATION RATES

The Company adopted and has been using Staff's typical depreciation rates per the National Association of Regulatory Utility Commissioners ("NARUC") plant category. Staff recommends that the Company continue to use Staff's recommended depreciation rates by individual NARUC category, as delineated in Table J-1.

K. POST-TEST YEAR PLANT

In its rate application filing, the Company submitted \$75,435 worth of post-test year plant for the year 2003. This \$75,435 was based on estimated budget projections and not on actual costs. In response to Staff's data requests dated June 26, 2003, the Company updated the post-test year project status as follows:

<u>Acct. No.</u>	<u>Description</u>	<u>Estimated Amounts</u>	<u>Construction Status as of June 26, 2003</u>
307	Wells & Springs	\$17,100	Revised to start construction in 2004.
311	Pumping Equipment	\$20,335	Construction period: 9/03 to 12/03
331	Transmission & Distribution	\$8,000	Revised to start construction in 2004.
334	Meters	\$30,000	On-going. Approximately \$12,000.
Total:		\$75,435	

The post-test year plant projects for Account Nos. 307, 311, and 331 have revised starting dates or have not started construction. Therefore, Staff finds these three post-test year plant projects to be not used and useful.

As for Account No. 334 – Meters, the Company calculated the projected \$30,000 amount from the following: 300 connections (25 new meter installations per month x 12 months) x \$100 each. The actual number of new meter installations from January 2003 to August 2003 was 113, which is 38% of the requested 300 count. Due to this small percentage of service installations that have been completed, along with a decline in service request and/or installations as shown in Figure F-1, Staff recommends not accepting this project as a post-test year improvement.

L. WATER TESTING EXPENSE

The water testing expense has been reviewed and the "test year adjusted results" of \$7,758 as shown on Schedule C-1, page 1 of the Company's application should be accepted without adjustment.

M. ARSENIC

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb. The date for compliance with the new MCL is January 23rd, 2006.

All of the Company sources, using 12 points-of-entry, indicate the arsenic concentrations range from 2 ppb to 3.9 ppb, which are well within the new MCL standard.

N. SERVICE LINE AND METER INSTALLATION CHARGES

The Company has requested to change its service line and meter installation charges. Through Staff's Data Request MSJ 6-2, the Company revised its request to include turbine and compound meters. These revised charges are refundable advances and the Company's proposed charges are within Staff's recommended range for these charges.

The Company has also requested to charge for road crossing at actual cost. Staff's recommended charges include road crossing and the cost amounts are based on the average cost between a short-service installation and a long-service installation (road crossing). Therefore, the road crossing cost is already included in Staff's installation charges.

The Company's Operation Superintendent stated that Gila County is paving roads and/or overlaying pavement that ranges from 2-inches to 4-inches in thickness. When the pavement is cut for service installation, the backfill and re-pavement must meet Gila County standards. For this reason, Staff will recommend its customary charges and further recommends that the actual cost be applied when crossing a paved road.

FIGURES

Gila County Map.....	Figure A-1
Certificated Area.....	Figure A-2
System Schematic.....	Figure B-1
Water Use.....	Figure C-1
Growth	Figure F-1

TABLES

Depreciation Rates.....	Table J-1
Service Line and Meter Installation Charges.....	Table N-1

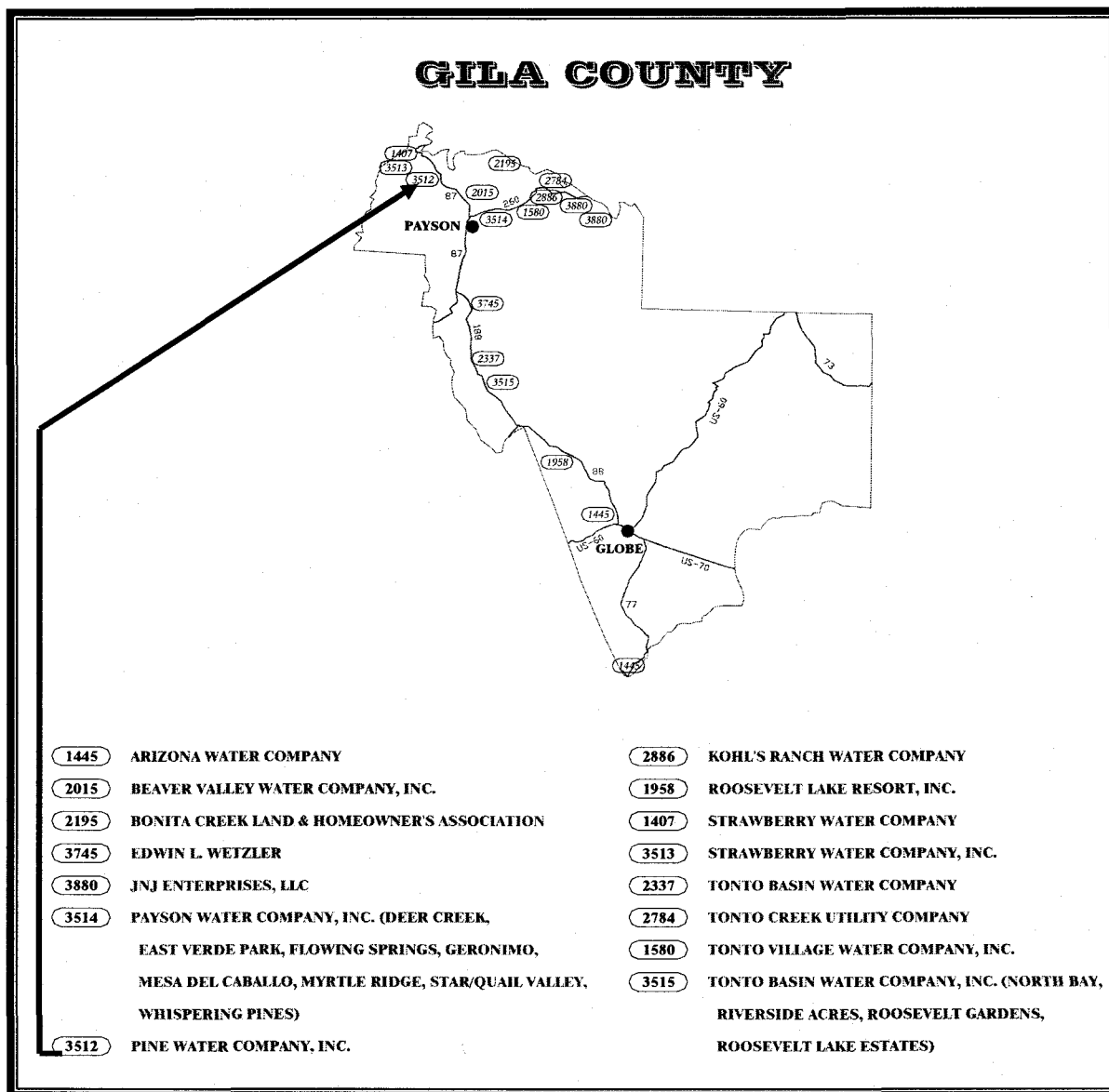


Figure A-1. Gila County Map



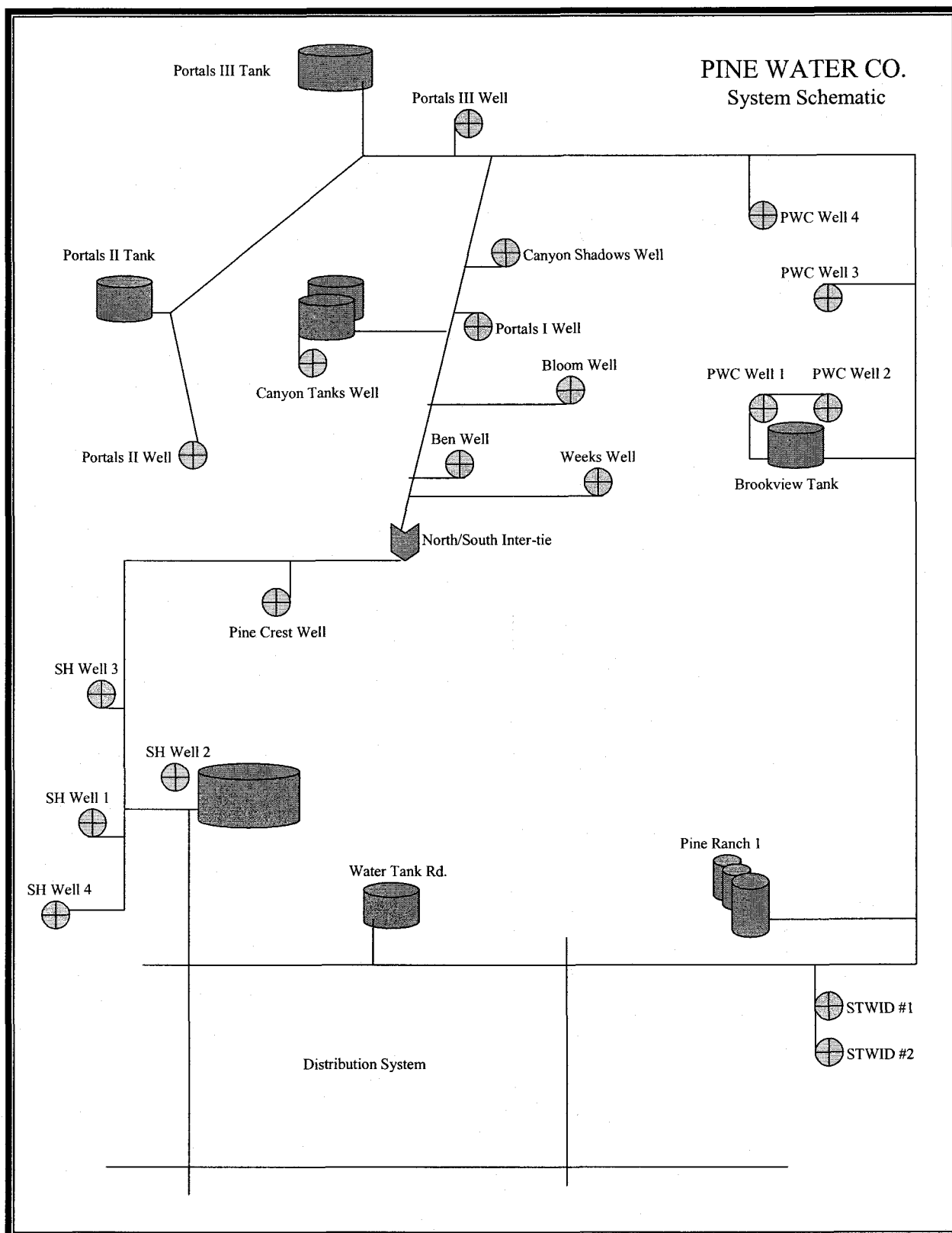


Figure B-1. System Schematic

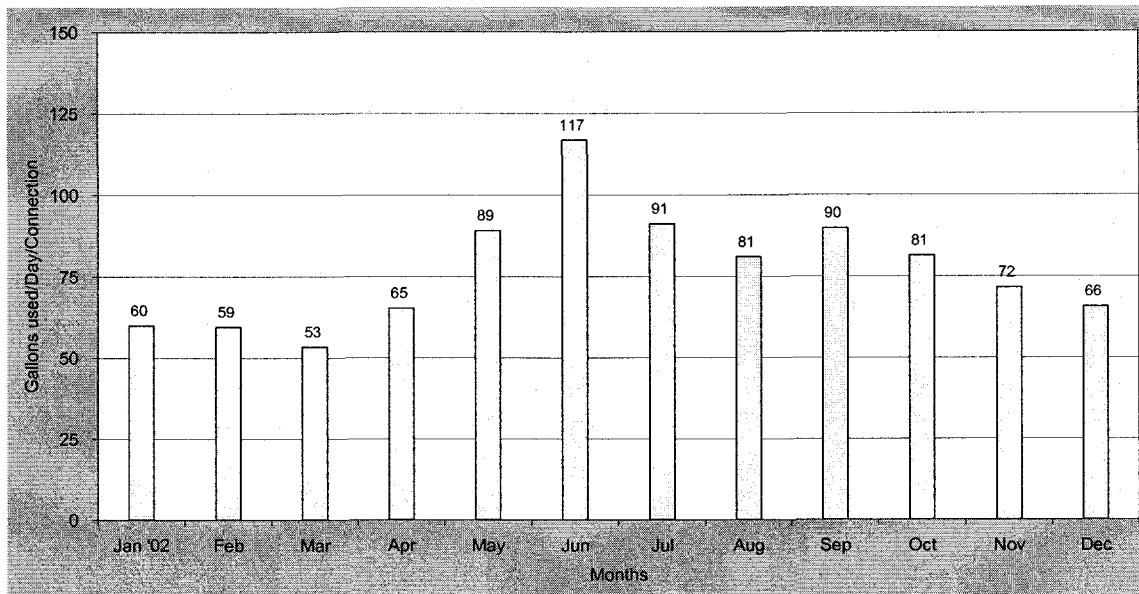


Figure C-1. Water Use

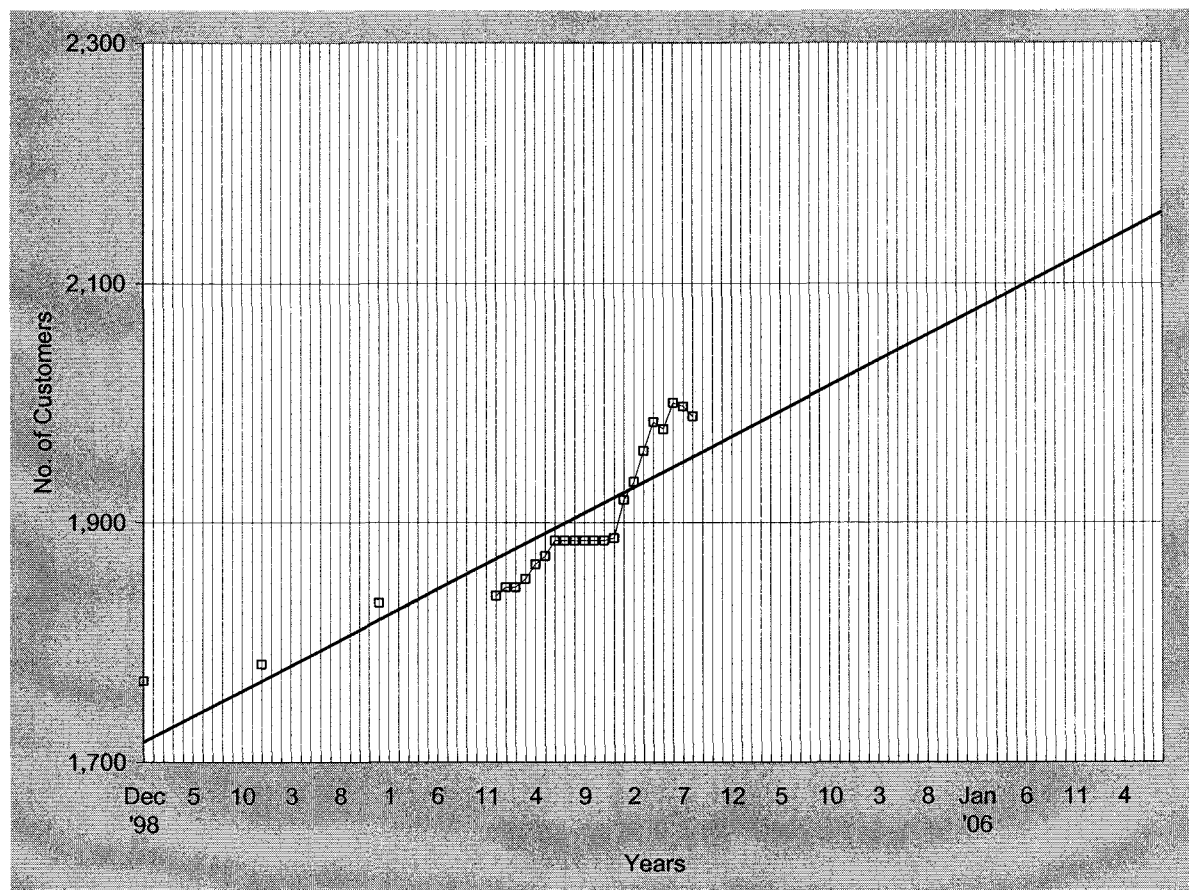


Figure F-1. Growth

Table J-1. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

- These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
- Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

Table N-1. Service Line and Meter Installation Charges

Meter Size	Current Charges	◆ Proposed Charges
5/8 x 3/4-inch	\$430	\$500
3/4-inch	\$480	\$575
1-inch	\$550	\$660
1-1/2-inch	\$775	\$900
2-inch Turbine	\$1,305	\$1,500
2-inch Compound	N/A	\$2,200
3-inch Turbine	\$1,815	\$2,100
3-inch Compound	N/A	\$2,900
4-inch Turbine	\$2,860	\$3,200
4-inch Compound	N/A	\$4,200
6-inch Turbine	N/A / \$5,275	\$6,000
6-inch Compound	N/A	\$7,700
8-inch & Larger	Cost	Cost

◆ Note: Actual cost be applied when crossing paved roads.